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The European Communities and the Free Economy

THE RT. HON.
J. ENOCH POWELL, M.P.

THANK YOU for inviting me to discuss "The European Communities and the Free Economy." I do so the more gladly because I am sure that Britain's presence in or absence from the European economic communities is going to be one of the central questions in British politics in the coming months and years.

Ten or twelve years ago, when British membership of the European Economic Communities was first raised, I was under the mistaken impression that the EEC was concerned with free trade. I now know that the first important fact to grasp about the EEC is that it has nothing to do with free trade.

Free trade is the absence of barriers – of artificial barriers – to trade between the citizens of the various countries, so that whatever may be the respective circumstances and the types of government under which they live and the follies which those governments respectively commit, nevertheless the citizens on either side of the national frontiers may within those limitations enjoy the best return in exchange for that which they produce. In other words, it enables the citizen to make the best choices and obtain the best reward for what he produces and offers for exchange. That is what free trade is about. It is about

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From an address of February 13, 1973, before a group of ministers — *The Remnant* — and guests in New York City.

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helping those who belong to different political units nevertheless to exchange automatically, often unconsciously, and as freely as possible, the produce of their hands and their brains. And that, I repeat, has nothing to do with the EEC.

The object of that organization, as the name denotes, is to create an economic community. Let us put it the other way round; to create a common economy. Paradoxical though it may appear, an economy is not a fact of economics. An economy is not an economic entity. No amount of economic information supplied to a visitor from Mars would enable him to outline on a map of the world the various economies. Of course, he could draw attention to areas where he suspected there would be a maritime economy, a riverine economy, and so forth. But "the British economy," "the United States economy," "the European economy" would remain entirely unknown and invisible to him. In order to detect and define those, the information that he would require would be political.

The Essence Is Political

"The British economy" means the economic aspects of a political thing, the nation called Britain or the United Kingdom. "The economy of the United States" is not something derived from nature; it is about a political thing – the United States of America. When we talk about "the American economy," we are viewing from an economic aspect something of which the essence is political. It is not economic facts that make the United States. It is political facts.

Therefore it is not surprising to find that the intention in the Treaty of Rome, as it has been implemented over the past 15 or 16 years, to create a European economic community is a political intention. It is one hundred per cent politics and zero per cent economics. That is not to say that it is right or wrong, wise or foolish, or that its results will be fortunate or unfortunate; but we must not be misled either by the alternative title, "Common Market" – which the British (rather significantly) have hitherto preferred to use – or by the appearance of the word "economic" in the title of this new political entity.

Three months before the due date of British membership on January 1, 1973, the leaders of the nine countries concerned met in Paris and, among other decisions, arrived at the conclusion that they intended to bring about "economic and monetary union" by 1980. I suppose that the political intention behind the EEC could not have been more sharply denoted than by that assertion. *Mon-*

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etary union? A single money, or the automatic convertibility of the respective national currencies? That implies that there is only one government; for the behavior of money is affected or determined by government – and not merely by the direct monetary policies of government, but by all the decisions that government takes, to intervene or not to intervene, to tax or not to tax, to spend or not to spend. All these have their effect on the value of the currency.

One Money – One Government

Therefore an area in which there is a single money – a singleness of purpose in all the ways in which government may influence the value of money – must mean that in that area there is one and only one government, one and only one political will. That is so obvious that it is superfluous to carry through the same proof again in the context of *economic* union. Indeed, it is hardly an exaggeration to say that economic and monetary union is a tautology: the same degree of political unification is necessary for monetary as for economic union. This, then, is what is aimed at within seven years – so we are told by the representatives of the nine countries of the Community.

Already a very considerable degree of political unification has taken place. Most people in Britain probably don't know it yet; but since the first of January Britain has had no trade policy. What, no trade policy? Yes, literally, no trade policy! Decisions which fall within the scope and definition of trade policy are no longer within the power of the British Government or Parliament. Those political decisions, that aspect of government, is now exercised elsewhere and is withdrawn from the control of any purely British authority.

So I am not drawing your attention to a speculative, hypothetical, ultimate development, but to a process implicit in the nature of the EEC itself, a process which by the very act of membership is carried a large stride forward, a process which is intended to be mightily accelerated – if not completed – in the years immediately ahead.

What Sort of Government?

The immediate effect of political unification is by no means unambiguous in its economic consequences. One is obliged to examine what may be the policies of the government which is to be set up within this new political unit. Will it be devoted to the free economy? Will it be bureaucratic? Will it be interventionist? The mere fact that there is to be a new political unit does not predetermine what

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will be its policies and its proclivities. But the effects upon the economic life of the component countries are already more far-reaching than I think they suspect, and I should like to spend a moment on one very important effect, directly connected with the bid to produce political union and uniformity of economic policy within the Community.

Inside a single nation, where there are no trade barriers and not merely the money but the economic policy is the same throughout, the economic balance — which is constantly altering — between the various regions of that nation is restored by the movement of people and of resources. If you could imagine, for example, the United Kingdom divided into three, four, or five separate countries, each with its own government and each with its own money, then the balance between these economies would be maintained by the exchange rate between their respective currencies. But as they are parts of one monetary and political unit, the consequence of economic change is a movement of resources and of people which takes place freely in response to those forces.

Out of this arises what we know as "the regional problem." Even within a single nation people are so attached, for other than economic reasons, to their own area, to their own part of the country, to the historic region to which they belong, that they resent the economic consequences of the national unity which is theirs, and demand that the central government shall take interventionist steps in order to defeat the effects of economic and political union, by making it appear more favorable instead of less to conduct industry in a place which otherwise industry would desert or giving preferences to areas which are economically less advantageous.

The Regional Problem on an International Scale

Bearing in mind that picture of the regional stresses within a unitary nation, let us look at the European Economic Community. We immediately see that the effect is bound to be the same on a larger scale. No longer will economic relations among the members be equilibrated through the exchange of currencies. On the contrary, they will be equilibrated by the free and automatic movement of people and resources; and just because that collides with the fact of the enduring local and national affections of the various parts of the Community, regional policy is one of the big problem areas of EEC politics. It is as though, having decided to achieve economic

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union, the Community found itself obliged at the same time to undo or counteract what must necessarily be the effects of political union. So we see straight from the beginning a direct political impact on the member countries of the political intention which lies behind the formation and the extension of the EEC.

So I return to my question: what sort of government is this going to be which is implied by the nascent economic and monetary union of the EEC? I've already given one indication. I have pointed out that the EEC has felt immediately moved to counteract the very economic consequences at which it purported to aim by using the power of the central authority to redistribute resources again, to falsify the economic data and to divert the economic forces within the enlarged community. But if we look at the character of the Community from the beginning, and at its background, I think we shall have little difficulty in discovering what kind of government there will be, and what kind of policy will be pursued, in this new political entity.

Three Communities

I notice that very accurately, in the specification of my title, the plural was used – "the Economic Communit*ies*" – and indeed there are in fact three. There is not only the EEC itself, as it was set up by the Treaty of Rome in 1957. There is the Coal and Steel Community; and there is EURATOM, the atomic community. So let's have a look at those other two communities that make up the plural.

There is a high authority for the coal and steel industry throughout the European Economic Community. What for? If the intention were the freest possible exploitation, in response to economic forces, of the coal and steel resources of the Community, then the last thing which would be needed is an "authority," to do what the market will do of itself. When an authority is set up, that is a clear sign of intention to ensure that the economic forces do *not* produce their natural effect but that something else happens instead.

Sure enough, the object of these two communities, the Atomic Community and the Coal and Steel Community, is not to ensure that the exploitation of the potentialities of coal and steel and atomic power occurs wherever and to the extent that it produces the highest return to the resources employed. If that were the object, no authority would be necessary. The object is a political object. It is so to control both the location and the volume of production as to achieve

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an outcome different from the purely economic – in other words, a political outcome. Already the governments in all the countries of the Community are knee-deep in coal, steel, and atomic energy. If those governments are to be unified within the Community, then the Community is bound to have an "authority" which will stand in relation to coal, steel, and atomic energy for the Community as a whole as the individual governments have been doing hitherto for their respective territories. In other words, it is plainly and wholly interventionist.

Trade Policy

Let us take trade policy as another example. What is meant by saying – and we hear these words on the most respectable lips – that the new European entity will constitute a "powerful" economic bloc, that it will wield economic power comparable with that of such giant economies as the United States or the Soviet Union. What does this mean, this talk of economic power? In what sense would western Europe, with no internal tariff barriers, represent a power or force in the world? Not by trading freely, either inside its limits or across a common tariff against the outside world. The essence of trade is that one party to a transaction exercises no more power than the other party. Trade in itself is of all human relationships the most pure of any taint of the exercise of power; for trade takes place when mutual advantage is equal and opposite.

Yet "economic power" is very much what lies at the heart and intention of the creators and the magnifiers of the European Economic Community. So what do they intend? How do you wield what is called "economic power"? Obviously, not by freeing economic activity and trade or by multiplying the voluntary relationships between individuals in one part of the globe and in another. You do it by exercising political constraint over your own citizens in their trading activities, so that their behavior may in turn bring duress to bear upon the citizens of other countries.

We witnessed in the 1930s what was meant by the exercise of "economic power": the deliberate use of a nation's ability, by molding the economic actions of its own citizens, to bring leverage to bear upon others. This is not the attitude or the approach of a new government with ambitions for freedom of trade and intercourse. It is the language of a new government with strictly political ambitions, where economic welfare will be subordinated to political intention.

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Taxation Policies — Uniform Throughout

Turn now to taxation. One of the principles of the European Economic Community is that taxation, and indeed all the other aspects of government which have an economic consequence in the life of the citizen, shall progressively be harmonized throughout the Community. We are at the moment enacting in Britain a Value-Added-Tax. Whether good or bad, this taxation is unparalleled in the course of the last 500 years; it is a tax which we cannot repeal, whether we like it or not; for it is a condition of membership of the European Economic Community that all the countries must have a Value-Added-Tax. In due course, the same logic will require that they shall all have the *same* Value-Added-Tax.

In every sort of government action which has economic consequences, the European Economic Community aims at attaining uniformity. We are, therefore, engaged in creating a government, a new government, a supergovernment, which will impose upon all the citizens of that area a system of taxation, a system of social welfare and insurance, a system of law wherever it touches economic affairs — uniform throughout.

I ask: is that likely to be minimal or is it likely to be maximal? Is it likely that harmonization will take place downwards or that it will take place upwards? Will intervention be raised to the level of the maximum which prevails anywhere in the Community or reduced to the minimum which is anywhere to be had? Well, I can tell you that in Britain, when anxious souls inquire, "Is there any truth in the rumor that in the European Economic Community we would have to dismantle the Health Service?", the reply is always confidently given, "Oh, no, no! What we expect will happen will be that in due course the rest of the Community will imitate us." That's how political harmonization takes place: in the nature of things, it takes place in an upward and not a downward direction.

The Nature of the Animal

Let us now have a look at the animal itself. Thus far, I have discussed in the abstract the political unit, the new political unit, the new government, the new supergovernment. But who are they who comprise this government? They don't at all closely resemble the present government, for example, of Britain. Those who make up the present government of Britain, for all their faults and failings, sit in the House of Commons and are answerable to the House of Commons in the sense that they

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may be called to debate there, and certainly are ultimately answerable to the electorate, in the sense that the electorate can turn them out. The government of the European Economic Community will not be like that at all.

The government of the European Economic Community consists of two parts. One part of this government is the bureaucracy, the bureaucracy which created it, the bureaucracy which inspired its extension and which is already busily engaged, on an ever-increasing, Parkinsonian scale, in working out plans for harmonizaton. This is a bureaucracy which is not answerable to any democratic authority whatsoever anywhere in the Community. It thus differs from the civil services of the respective governments, which, after all, are the servants of those governments although they may sometimes behave more like masters. The bureaucracy of Brussels, the bureaucracy of the Community, the Commission is entrenched in the Treaty. It is part of the constitution. It has its own inherent power and its own independent source of growth and of authority.

The other part of the government is a combination of the national governments, meeting together in conclave to arrive at bargains among themselves to their common or mutual advantage, a sort of lowest common denominator of the national executives of the respective countries. But when they are together they are not the same as when they are separate. When they are separate, they each return to their makers. The British Government at home behaves as the British Government. Parliament has to explain and to argue; the supporters have to defend their actions to their electors; the electors then have the last word.

The Whole Differs from the Parts

Not so when governments join to become a collective. The combining of nine governments does not leave those nine governments unaltered. They become a tenth thing, something new. The decisions which they take in common are decisions for which none of them is separately and independently responsible. They are all, as individual governments, irresponsible in respect to the decisions which they take together; and each and every one of them can say, "But, of course, this wasn't our decision. No doubt, if we had been free, we wouldn't have done exactly this. But you see, we had to agree, because we are a Community."

Both parts, therefore, of the government of the new political entity are irresponsible. And I

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have to ask you this question: is it more likely that a bureaucracy and an executive which are not democratically responsible will be less or more greedy of power, less or more ready to find new work to do, than national governments, which at least in the last resort, have to render account for their actions to those whose activities and lives are affected?

So, I conclude that the European Economic Community represents the erection of a new government, a new political unit with a new government, and that the whole spirit and trend of this new unit and new government will be to increase the power of government vis-à-vis the citizen and to increase the scope and range of government intervention in the economic life of the citizen throughout the area which is covered. As I said when I started, this is not about free trade. This is not about economic freedom. It is about the regulation of trade and the regulation of economic life.

A National Interest

I want to leave this reflection with you in conclusion. It is a reflection which has been borne in upon me with new sharpness by the many valuable encounters and discussions I have enjoyed here in the United States during the past nine days. Though we hold in common many beliefs and principles, these are seen by each of us in the context of his own national background. We err if we imagine that the laws of economics apply merely to individuals, and that the aggregations of mankind into nations and societies is the mere totaling of individuals. The case for a free economy – the case for which we contend, all of us in our respective situations – the case for economic freedom does not depend upon an artificial picture of humanity. The case consists in what the application of those principles can do in particular societies, the societies into which men are actually organized as sovereign nations; and the story of Britain in the European Economic Community really illustrates this.

The decision that Britain has to make – and we haven't made it yet[1] – is essentially a national de-

[1] At the last general election, Mr. Heath said that such a thing as membership in the Community could not come about without the full-hearted consent of Parliament and people. The measure was forced through Parliament by paper-thin majorities and no one, however enthusiastic for British membership, has ever dared to claim that there is even a bare majority in favor amongst the public outside Parliament. In those circumstances, what has happened must be regarded as provisional and I do not believe that the electorate can be denied the opportunity if it wishes to make this the deciding factor in a decision at a general election.

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cision, a national political decision. The question is: By whom are we going to be ruled? So, as one who labors with you in the same field, I find myself opposing Britain's membership in the European Economic Community – indeed, believing that it cannot be brought permanently to pass – not primarily on the ground that it will operate to increase the power of intervention by government over a great area of humanity, but because of its political unrealism: that it assumes a will to be governed where a will to be governed in the new unit does not exist.

Economic laws, of course, are independent of human volition; but like the other laws of nature which we cannot change, we seek to place a true interpretation and use of such laws at the disposal of our fellow citizens. And we do that – I believe, all of us – not from general and abstract considerations of the welfare of the total of humanity, but because we ourselves enter as members into the fate and destiny of a specific human society. It is in that sense, though only in that sense, that I have always claimed that the economic in human life is subordinate to the political. It is a servant, a servant in the sense that any of the other natural forces is a servant if rightly used. That is why the politician has the duty to his own society to insure that that society understands the necessary consequences of the policies which it adopts or rejects. It is because I want to preserve to the people of Britain the opportunity still to take that kind of decision for Britain, that I, for my part, have said "No" to the creation of this new superstate and supergovernment – at least insofar as Britain is intended to be a part of it.

IDEAS ON LIBERTY

Freedom to Cooperate

INTERNATIONAL CONFLICTS are inherent in the systems of interventionism and socialism and cannot be solved unless the systems themselves are abolished. The principles of national welfare as conceived by our progressive planners conflict with the principles of international cooperation and division of production. If international cooperation is to be restored, the policies of government interventionism and socialism must be abandoned.

HANS F. SENNHOLZ, *How Can Europe Survive?*

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Freedom is an uninsurable risk

PAUL L. POIROT

UNDER "no-fault" auto insurance, presumably every owner would be covered and have to pay premiums, and most claims for damages would be drawn against the pool, regardless of whose negligence might have caused or contributed to the casualty. In many respects, such "no-fault" insurance resembles Workmen's Compensation and is in keeping with other developments in our welfarist society.

Formerly, an individual was allowed to assume the risks and responsibilities of caring for himself in his old age. Then came "Social Security," and rare today is the individual who is allowed exemption from this compulsory program.

Compulsory unemployment insurance now tends to relieve individuals of full responsibility for earning a livelihood.

Consistent with universal compulsory schooling are various governmental child care and family assistance programs.

Health care and medicare insurance programs have been largely collectivized and rendered compulsory.

Plans are being discussed for governmental remuneration of any victim of crime, regardless of contributory negligence by the victim – or by the police force instituted to suppress crime.

One after another, the risks of living, that once might have been assumed by the individual or insured against privately if he so desired, have been brought under compulsory insurance programs which cost a typical tax-paying family $2000 a year. This amount is increasing and is now some three times what it was a decade

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earlier. Further, this figure is over and beyond the costs of any insurance policies still privately carried such as life insurance, home owner's fire and casualty, automobile liability and casualty, private pension and medical plans, and so forth. Some private insurance costs are loaded into rental rates and carrying charges on mortgages and other loans, or as fringe benefits of employment, so that the customer may not be fully aware how much he pays privately for insurance – any more than he would know how much of his tax bills go toward compulsory insurance coverage of one kind or another.

The Age of Socialism

The point is that many Americans, from those living below the so-called poverty level on up through middle and higher income groups, literally are being insured to death. The age of compulsive and compulsory protectionism is upon us, and another name for this is socialism. It is not insurance.

A voluntary insurance contract is a viable and sound protective device for the pooling of the classifiable and calculable risks people encounter in life. In a competitive market economy where savings may be privately accumulated and invested and owned – where private property is respected – men have long since devised cooperative ways of insuring themselves against various contingencies.

But the application of the insurance principle depends upon a fairly accurate and reliable method of grouping the risks into classes. In the case of life insurance for instance, a person of a given age and normal life expectancy would not want to be pooled at the same premium rate charged persons of another race or society or of advanced years with a life expectancy much less than his own. Nor would Mr. Average want to be pooled with a group known to have a poor medical history or with persons engaged in a particularly hazardous occupation. Such classes of risks each would be expected to have its own premium for life insurance, based upon fairly accurate actuarial tables or experience ratings. Otherwise, anyone with longer life expectancy would more than likely carry his own risk – stay out of such high-cost pools – perhaps form a new company with others in a class of risk comparable to his own. Men acting voluntarily in open competition thus tend to serve and satisfy their respective and variable needs, each buying as much life insurance as he chooses at competitive rates befitting his class of risk.

Supposedly, however, there is something wrong with such vol-

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untary life insurance: it fails to cover those who do not want to be insured and who would not, or could not, voluntarily pay premiums at competitive rates. In other words, if life insurance is voluntary, some persons may choose to use their property for purposes deemed by them to be more important than insurance – possibly for food, clothing, shelter, recreation, some other form of saving and investment; perhaps even for cigarettes, liquor, drugs, gambling or who knows what.

Not Like Insurance

Under the Social Security program of the United States, the Federal government insists that nothing shall be more important to an individual during his working lifetime in "covered employment" than that 11.7 per cent of the first $10,800 of his annual earnings (1973 rates) be paid into the Social Security pool, regardless of his current needs for food, clothing, shelter, or whatever.

True, the OASDI premium payments may vary depending upon the amount of one's earnings; and the eventual benefit payments also may be related to one's record of past earnings. But there also are marked departures from the established insurance principle of grouping the risks into comparable classes. For instance, the premium rate is the same for a youth in his twenties as for a person in his sixties. The coverage is the same for those who want less insurance, or none, as for those who want more; the same for all occupations, races, colors, creeds, regardless of actuarial histories. Such unrealistic groupings explain why this sort of an insurance program has been made compulsory; it simply couldn't attract voluntary participation.

Hard-to-Classify Risks

The principles that apply in the case of life insurance also relate to other types of insurance: fire, theft, liability, collision, hail, windstorm, flood, malpractice, and so on. If a program of voluntary insurance is to be practical, then the risks must be measurable and more or less easily classifiable so that rates may fairly reflect the costs for a particular class of risk. And in some cases, such as hail or hurricane or flood insurance, the risks may differ so much from one geographic area to another, or may be so great in any given area, that an owner might simply elect to take his loss if and when it occurs rather than pay a very high annual premium. Following a local hailstorm or hurricane or flood of disastrous proportions, there is likely to be a clamor for Federal aid – which would amount to com-

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pulsory insurance of these hard-to-classify risks on a nationwide basis.

Another principle of sound insurance is that the policyholder (and presumably the one who pays the premium) has a morally and legally insurable interest in the property in question. In other words, it is definitely to his interest to see the property maintained intact in its prevailing use rather than lost or destroyed. He'd rather have his home or business property as it stands than to have it burned down for the insurance. He'd rather have his actual and anticipated earnings from the market place than to collect on his life or disability or unemployment policy. Some persons are known to be poor moral risks for certain types of insurance, and no one of sound mind and character willingly chooses to be pooled with such high-risk cases when he buys his own insurance.

Breakdown of Morals

The proliferation of compulsory government insurance programs in any society seems to be closely linked with the moral deterioration of the people, though the programs are seldom if ever initiated or promoted on any such premise. On the contrary, Social Security, Workmen's Compensation, Unemployment Payments, Medicare, Disability Benefits, Veterans Pensions, Family Welfare, No-Fault Auto Insurance, Flood Relief, and the like invariably are launched upon good intentions to help the hapless and worthy poor – usually at taxpayer expense. But if actuarial tables tell us anything for certain, the fact is that subsidizing a weakness aggravates and accentuates it. The "worthy poor" multiply in proportion to the handouts made available – which is a condition known in the insurance business as a poor moral risk. The same result may be expected of any compulsory insurance program: excessive demand for the benefits, and no one volunteering to pay the premiums.

The Human Situation

The utopian dream of living exclusively upon the fruits of the labor of others is forever doomed to disappointment. And the reason is clear. There are no "others" who want to work and produce and save entirely for someone else's satisfaction rather than for their own purposes. Socialism sadly misreads the human situation, presuming self-interest to be no significant feature of human nature. "All for each and each for all," is the basic socialist slogan, and it does have great emotional appeal; wouldn't that be nice!

"To each his own," however, is

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a slogan far more consistent with the nature of man. He is motivated by self-interest, and often, if not always, can understand that it is in his own best interest to serve efficiently the most urgent interests of others. Thereupon rests the case for private ownership of property, voluntary exchange, open competition and government limited to policing the market. This affords the maximum or optimum cooperation possible among men who are not perfect saints. The consumer may be king, but only if he is guided by the economics of production rather than by the fictions of consumerism or the fully insured life. What is not produced may not be consumed. And what is not privately owned and controlled is not realistically insurable.

An Insurable Interest

So, we come once more to the principle of insurance against casualties and the reason why the principle is inoperable under socialism. If there is property, a portion of it may be invested (pooled, if you prefer) to cover the probability of losing all of it. Now, who is interested in covering that sort of risk? Have you ever seriously considered buying a policy to insure your neighbor's life or his house against loss by fire? Probably not. You insure your life or your own property against such losses, and you do it only because that property, or the loss of it, is all yours.

The Preamble to the Constitution of the United States reads like an insurance policy:

> We, the people . . . in order to . . . insure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity, do ordain and establish this Constitution. . . .

Here we have the one thing and the only thing in which all the people of a society have a common insurable interest: protecting peaceful persons and their activities against criminal intervention – in order to secure the blessings of liberty. The Founding Fathers thus gave us the formula for limited government – compulsory insurance against criminal intervention.

In contrast, the formula of compulsory collectivism – "to each according to need" – would presume to insure against every contingency, thereby precluding the forever uncertain blessings of liberty. Governmentally managed "welfarism" has been thoroughly tested, in the United States and in other nations. All the evidence indicates that this leveling-down process eventually strips the individual of

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his dignity, choice, incentive, property, and personality – a compulsory insurance scheme with its premiums taken "from each according to ability."

Many today have forgotten that the Pilgrim Fathers on the shores of Massachusetts, as well as the first colonists of Virginia at Jamestown, tried this communal form of insurance. Out of their common product and storehouse they set up a system of rationing. And the result was famine – until they abandoned the socialist formula and resorted to private ownership, competition, and trade.

The lesson seems to be that the most trustworthy way to insure one's life, or property, or anything else one possesses of value is to put that property and those talents to productive use. By thus serving others, one earns from them all the insurance he deserves.

If a person would be free, he has to assume the responsibilities and uncertainties of open competition and peaceful exchange. These essential conditions of freedom, as variable as the thoughts or the fingerprints of individuals, are not subject to classification, nor can the results be calculated or known in advance. This is why freedom is an uninsurable risk.

IDEAS ON LIBERTY

Voluntary Co-operation

IN A WORLD of voluntary social co-operation through mutually beneficial exchanges, where one man's gain is another man's *gain*, it is obvious that great scope is provided for the development of social sympathy and human friendships. It is the peaceful, co-operative society that creates favorable conditions for feelings of friendship among men.

The mutual benefits yielded by exchange provide a major incentive to would-be *aggressors* (initiators of violent action against others) to restrain their aggression and co-operate peacefully with their fellows. Individuals then decide that the advantages of engaging in specialization and exchange outweigh the advantages that war might bring.

MURRAY N. ROTHBARD, *Man, Economy, and State*

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EDMUND A. OPITZ

Stubborn Facts *and* Hard Heads

ABOUT a dozen years ago, the London magazine, *Contemporary Review*, published an article by Colin Welch, a new Member of Parliament, reflecting on his first year at Whitehall. "Coming afresh to Parliament in this silver age," he wrote, "it is impossible not to feel one is too late. The great debate is over. The voice now silent was a great and uniquely English one: that of Milton and Locke, of Burke, Mill, Gladstone and Morley — [it was the voice] of liberalism, with a small 'l'."

Liberalism with a small "l" is the philosophy of the eighteenth century Whigs which inspired our Founding Fathers and the men who wrote *The Federalist*. Adam Smith outlined a system of economics to go with Whiggery, producing a science which has been amplified in our day by such men as Ludwig Mises and F. A. Hayek. Present-day spokesmen for this tradition generally call themselves Conservatives or Right Wingers, for the word Liberalism has been captured by the opposition.

Certain of our contemporaries have turned this old liberal philosophy inside out, but they have kept the label. Contemporary Liberalism is an ideology which is the very reverse of classical liberalism. Today's Liberal has his ideological heroes: chiefly Marx, Veblen, and John Maynard Keynes. Today's Liberal is a man of the Left; he seeks political power in order to impose some sort of a "Deal" on the nation. He demands that government manage the economy; he finds religion useful only insofar as the churches focus on social action; he wants to control the schools in order to condition students to play their role in society.

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The contemporary Liberal has been described as a man with both feet planted firmly in mid-air.

A Man of the Right

I hope I have said enough to broadly identify these two schools of thought, Conservatism and Liberalism. And to let you know where I stand, I am a man of the Right, a Conservative.

I'm a Conservative, first of all, because men of this persuasion approach life with a healthy respect for its variety, its complexity, and its mysteries. Life is full of stubborn facts; reality is very much what it is and our wishes will not make it otherwise. It would be convenient on occasion if the multiplication table did not insist relentlessly that three times two is six; but the answer is always six. The facts are equally stubborn in other departments of life – not only in the natural and biological sciences, but in the religious, ethical, economic, and political sectors as well. We are surrounded by inexorable regularities, laws which we cannot rewrite because we did not write them in the first place. We must accommodate ourselves to these laws, in order to succeed. But there are those among us with hard heads, and this thought does not penetrate.

Somebody said that if you ask a psychotic "How much is three times two?" he'll give you a definite answer. He knows three times two is seven. Ask a neurotic the same question, and this nervous chap is uncertain; the answer might be five or six or seven, but he's not sure. The Liberal knows the answer; he knows that three times two is six, but he resents it!

Getting the Message

Each of us, as he makes his way through life, might be compared to a blind man at the seashore using Braille to read an important message in the sand, written in code. The man feels a sense of urgency because the tide is rising and he knows that the waves will soon obliterate the message. But the blind man restrains his anxiety, knowing that he must not in his haste thrust his fingers roughly against the letters in the sand lest his heavy handedness disturb and erase them. He must make every move with great delicacy, touching the sand just firmly enough to trace the contours of each letter but not so heavily as to disturb the sand which forms them.

Tactile contact with irregularities in the sand puts the blind man in possession of a cluster of words. He decodes the words and gets the message; and thinking about the message, he gets its meaning.

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Life's Meaning

Life is like that; its meaning is not self-evident, nor is it forced upon us. As we grow up into life we feel an inner compulsion to decipher its mysteries, discover some of its regularities, align our lives with what we believe to be real. Our means for doing this are meager, compared to the immense complexity of the task. We possess a spark of intelligence, our instincts are feeble, and we have spasmodic help from experience, tradition, and the conventional wisdom of our society. But with a little luck, we can decode the message and find its meaning. What are some of the things it tells us?

It tells us that we live on a restless planet, a globe where change goes on constantly. The continents float on a molten lake, and they slowly drift away from each other. The earth's crust fidgets with a deep anxiety and occasionally erupts to change the contours of the land. Erosion occurs and we lose huge chunks of the shoreline to the sea. Iron rusts, the dollar is devalued, and each one of us is a day older than he was yesterday.

Although we ourselves change without ceasing and live our lives amidst constant change, we nevertheless know that some things do *not* change. Some things are now what they always were and always will be. I've referred to one such, the multiplication table. The table of atomic numbers is another instance of fixed relationships, immune to change. In short, there is a realm where things are permanent, a realm of Being in contrast to the realm of Becoming. Some things remain; they are beyond the reach of time, and so they do not grow old, nor do they decay or rust.

Theism

There is God – the same yesterday, today, and forever. You've heard rumors that God is dead. Certain conceptions of the deity are dead, and good riddance. The idea of God as a heavenly Santa Claus or God as a Cosmic Bellhop – these ideas are laid to rest and I hope they remain so. But the idea of an overarching meaning and purpose in the universe is not dead. This is a stubborn fact, and we find meaning and purpose in our own lives only as we come to terms with it.

Belief in God, or Theism, is not an easy philosophy, but the alternative to it – carried to its logical end – is impossible. Theism is the belief that a mental-spiritual dimension is at the very heart of things. It is the belief that Mind is ultimate, and not Matter. If we do not accept this position we are driven to affirm that Matter is ulti-

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mate, with Mind being a mere derivative. But to say that Mind is a mere offshoot of matter is to downgrade our own reasoning processes and to discredit any conclusions we might reach by taking thought. Anti-theism makes Matter the master of Mind; it reduces the search for truth to the movement of material particles and thus refutes itself.

Life Without God

I believe that Theism is important, not because theology is my bag, but because of what happens when belief in God goes. First off, we lose our minds! Our mental processes are reduced to the level of a secretion from a gland.

Secondly, we lose a proper goal for life. When a society loses contact with the transcendent there will ensue a passionate pursuit of wealth and power. Every gain by the power-hungry nullifies freedom at that point; and the frantic pursuit of material gain will destroy the market economy.

Thirdly, the materialistic philosophy of the anti-theist throws out free will; it regards every human action as determined by physical causes, overlooking human creativity. And if man is not a freely choosing person, it's pretty silly to try to defend the free choice economic system, and even sillier to work for the free society where men enjoy maximum liberty to choose and pursue their own life goals.

Fourth, and finally, there is no place for moral values in a universe where Matter is ultimate – where, in philosophical language, the distinction between right and wrong has no ontological status, no reality. In Communist countries, right is whatever the Party commands, and wrong is whatever the Party forbids. In such a society there is no appeal from arbitrary commands to a standard of justice above the law; goodness is equated to Party loyalty. On this point, at least, the comrades are logical; if God is dead, men are creatures of the State; its fiats are their law.

My second stubborn fact is that there is a moral order. The universe consists of more than brute facts; it contains ethical values. If there is a genuine moral law operating in 1973, it is the same moral law which operated in 1973 B.C. Men's interpretations of the moral law might vary, due to ignorance or wishful thinking. But the law which is subject to mistaken interpretations does not itself vary; it is what it is, and our thinking does not make it so or not so.

A primitive people might believe that the stars in a night sky are the souls of departed tribesmen,

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and that the sun is a huge torch borne across the sky by the tribal deity. But these erroneous conceptions no more invalidate our astronomy than do the weird notions of right and wrong entertained by these same tribesmen – or by contemporary intellectuals – invalidate the ethical code built up around the Ten Commandments and the Golden Rule. There is a moral order with ideal norms and standards for flourishing human life, and in the long run no society can flout the moral order without courting destruction; every person must eventually come to terms with it if he would fulfill the potentials his life holds.

The third stubborn fact is human nature itself. A piece of silly putty can be molded into any shape you choose; throw it down and it will slowly subside into a formless mass. The human being, by contrast, is a dynamic transformer of his environment; he does not passively lapse into whatever the situation in which he finds himself. We are adaptable and durable creatures, but we adjust to realities only so that we might more effectively cope with the difficulties attendent upon survival and growth.

There are permanent elements in human nature because of our relationship to God and the moral order. There is in us a sacred essence, a private domain in each person to which he alone has access and over which he alone possesses rights. "We are endowed by our Creator," the Declaration reads, "with certain unalienable rights," and it is a function of government to help secure those rights. We are not mere end products of natural and social forces; we are created beings. God made us free, and any man or institution which impairs liberty frustrates some purpose of the Creator.

Laws of Economics

God, the moral order, human nature; these are stubborn facts. And so are the laws of economics. When certain consequences follow invariably from certain antecedents we are entitled to speak of this regularity as a law. There are indeed economic laws, for we can say: Choose these policies and you will be visited by such and such consequences; the consequences are built into the policies and the only way you can avoid them is to reject those policies. For example:

- Whenever a government expands the money supply – which is the definition of inflation – the price level rises and people find that they cannot afford things.
- Impose rent controls and the growth rate of new housing declines, while present housing deteriorates.
- Pay a man for not working – Un-

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employment Compensation – and he will produce less, or stop working altogether.

- Legislate monopoly unionism and you institutionalize unemployment.
- Impose minimum wage laws and you do someone out of a job.
- Launch a government war on poverty and you increase the number of poor people.
- Allow the trading nations of the world to fix the price of each other's currency and you will suffer periodic devaluations of the dollar – or the mark, or the yen, or the pound.

I might lengthen this list – and I know that each of these blunt propositions needs to be backed by a book – but you get the idea.

The last of the stubborn facts I want to mention concerns government. I remarked earlier that people of my persuasion who today accept the Conservative label would have been called Whigs or classical liberals a couple of centuries ago. Classical liberalism marked a radical departure from all other political theories and practices. It declared that the end of government is justice between man and man, and maximum liberty for each person in society.

Questions of Power

From ancient times to the present, every political theorist – except the classical liberals – tried to frame answers for three questions. The first question was: *Who shall wield power?* Whether the structure took the form of a monarchy backed by divine right or a democracy based on the so-called will of the majority, it was essential that power be wielded by the small group thought most fit to exercise rule. But it was not power simply for power's sake, but political power for the sake of economic advantage.

So the second question is: *For whose benefit shall this power be wielded?* The court at Versaille is a good example of what I mean. The French nobles favored by royalty lived rather well although they'd rather be caught dead than working. In virtue of their privileged position in the political structure, they got something for nothing. I daresay that each of you can think of parallel instances operating today, even in our own country.

Now, when someone in a society gets something for nothing through political channels, there are others in that society who are forced to accept nothing for something! So the third question is: *At whose expense shall this power be wielded?*

Let me repeat these three questions, for they provide an apt key to most political puzzles: Who shall wield power? For whose benefit? At whose expense? One might put

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this in a formula: Votes and taxes for all; subsidies and privileges for us, our friends, and whoever else happens at the moment to pack a lot of political clout.

Equality Before the Law

The American system was to be based upon a different idea. It took seriously the ideas of God, the moral order, and the rights of persons. It discarded the notion of using government to arbitrarily disadvantage a selected segment of society, and instead embraced the idea of equality before the law. Government, in this scheme, functioned somewhat like an umpire on the baseball field. The umpire does not write the rules for baseball; they have emerged and been inscribed in rule books over the years and they lay down the norms as to how the game shall be played. If any person is on the field it is to be presumed that he has freely chosen to be there because he wants to play baseball; otherwise he'd be on the tennis court, the golf links, or in the poolroom. He wants to play ball, and in his thoughtful moments he knows that the game cannot go on unless there is an impartial arbiter on the field to interpret and enforce last resort decisions – such as ball or strike, or safe at first.

Baseball is inconceivable without a rule book, and that goes for every other game as well. It would not be a baseball game if every man on the diamond merely did his own thing; it would be chaos. The rules of the game are not designed to hamper the player, although everyone who has ever played ball has had moments when he'd like the rules to bend a little in his favor; the rules are what make baseball possible. Or chess. Or tennis. Or any other area of life you'd care to mention. In the absence of rules there is sheer disorder, on the playing field as in life.

But surely not in the realm of art, someone might say. There may be economic laws, and Edmond Hoyle did compile his book of games; but Shakespeare did not write his poems "according to Hoyle." Great artists often compose or paint in a frenzy of inspiration, our objector might say; the creator knows that the rules are there to be broken; the artist is averse to order. At first thought this rebuttal does seem to carry some weight, for some modern composers do disregard the rules; they compose without melody, without rhythm, without harmony – without talent. But there is magnificent order in a Beethoven symphony; the great composer did not write his symphonies "by the book," but most emphatically he did not discard the rules. There is indeed an affinity between the art-

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ist and disorder, but only in the sense that disorder or chaos challenges the artist to bring order and harmony out of it.

The order present in all real art might not be immediately obvious to the untrained eye or ear, and in great art it is artfully concealed. Go to the Parthenon and contemplate the frieze sculpted by Phidias. Motion and fluidity strike the eye, but as Gerald Heard writes: "Scrape down the figures to their main structural lines and there, clear and hard as the rib and fretwork of an Arabian vault, stands out the geometrical design, holding all this apparent streaming fluidity in an iron order."

Who would dare argue that Shakespeare's genius was blunted by having to conform to the fixed pattern of the sonnet? This ready-made poetic form actually enhanced the poet's freedom; it allowed him to spend all his genius on content.

Apart from the various forms a written language might take — poetry, novels, essays, dramas, and so on — there is the language itself. Sometimes the niceties of grammar seem to lie in wait just to ensnare the ideas that rush pell-mell out of our minds, or we bog down in a syntactical quagmire. But if it weren't for the language which we absorb as our mother tongue we would have no way to express our ideas, and our ideas would be of the foggiest sort. Not even the most brilliant mind conceivable could invent a new language from scratch; and even if the miracle occurred he could not use it to communicate. The rules of language, which sometimes are annoying, are at the same time a vehicle for our freedom; just as, for a swimmer, the water whose friction impedes his progress provides the buoyancy without which swimming would be impossible.

Chaos and Disorder

I have belabored this point only because we live at a time of passionate rebellion against the very concept of order, a time when disorder is the new thing, the "in" thing in every department of human affairs. Such key words as Law, Order, Norms, Standards, and the like, are dirty words today. Abandonment of the rules is confused with freedom; the slave to impulse and whim thinks he is a free man. The result is chaos in the souls of men and anarchy in society.

Every society must find ways of dealing with people whose erratic conduct deviates significantly from the norms of human behavior acceptable in that society. Those who cannot figure out what these norms are, or who know but refuse to conform to them, are the crimi-

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nals and the psycopaths. In a humane society such people are treated with understanding, compassion and Christian charity; but no society can long survive a takeover by the antisocial. By definition, this is the case. It must, therefore, be able to distinguish social from antisocial conduct, and this our society is having trouble doing.

So far has the erosion of norms gone in our society that the idea of abnormality has just about disappeared. Standards of right and wrong have crumpled, the rule book has been pitched out the window, and each one of us is advised merely to do his own thing. Anything goes; every variety of conduct and any kind of life style is to be tolerated because, it is alleged, no one can say what is normal and what is not. What is right for one man may not be right for another, we hear it said, so let every person decide for himself what is right for him. Anything goes; everything must be tolerated.

No Standards Remain

At this point we turn the corner and the relativist is hoist with his own petard. The relativist can propound his theory and practice his eccentricities only so long as most other people refuse to accept relativism and continue to live straight. But as soon as the balance begins to tip toward relativism, the result is nihilism. If everything must be tolerated, then *intolerance* is sanctioned. If anything goes, and there's no way to prove that anything is better or worse than anything else, then intolerance is no worse and no better than tolerance! Tolerant is what a person should be if he's so inclined; and intolerant is what a person should be if his conscience impels him in that direction. Having abandoned norms and standards, we have no way of deciding that one thing is better than another, or that this is right and that wrong. "If it feels good," reads the bumper sticker, "do it."

Each of us has his inner world, but we also live in the world outside. Rules and standards, right and wrong, are in the area that exists outside of and above individual subjectivity; feelings, on the other hand, are strictly private, inhabiting the individual's inner domain. Norms are objective; they are "out there," and they are what they are regardless of what we might think they are. A toothache is subjective, it belongs to you alone; it is wholly private, not public at all. There's no limit to the number of persons who can come to a knowledge of the norms which apply to human behavior, but only you experience your pain.

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The only response another person can make to your pain is to sympathize.

Go back now to the bumper sticker: "If it feels good, do it." The only referent here is to the domain of individual subjectivity. If an individual says that something feels good he has made an ultimate judgment, for no one is in a position to get inside another and tell him otherwise. There's nothing to discuss; preferences and likes are final. It might occur to you to tell another that the wrong things make him feel good, that his affectional nature is warped and perverted; otherwise, he wouldn't take pleasure in beating up old ladies. But this fellow is a bit of a philosopher too, so he reminds you that he has abandoned norms, and without this plumbline there's no reason why he should not prefer his feelings to yours — which, in fact, he does.

It's another story if we amend the advice to read: "If it's right, do it." Now here there is something to discuss, for the idea of right is "out there." We can talk things over and possibly come to an agreement that the proposed line of action is indeed right, or not; and further, if it is right, whether doing it now is proper, or expedient, or whatever.

I do not mean to suggest that every person who innocently repeats the catchphrase, "Do your own thing," is a nihilist, with full awareness of the implications of this position. He might say, Do your own thing, so long as it doesn't hurt anyone; or Do your own thing and allow everyone else the same latitude. But such a person has appealed to a norm, the ancient norm, "Injure no man." This norm implies others, and pretty soon you've restored the rule book. A warning is in order: Those who begin by adopting the vocabulary of nihilism may end by becoming its victims.

The Cult of Abnormality

Having opened the can of worms this far, permit me to pry back the lid a little further and offer a clinical example: gay liberation. Homosexuality is a sad fact of life, and because homosexuality is not a life-affirming but rather a life-denying attitude, it comes to the fore especially during periods of a nation's decadence. When all standards are in doubt, the norms of maleness and the norms of femaleness become unclear, and so we hear it said that homosexuality is just as normal as heterosexuality. They pose the question: Who is to say what is normal? The question is intended to be merely rhetorical, supplying its own answer, that no one is entitled to say what is normal and what is abnormal. But if

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the rule book has been discarded and there is a general rejection of the idea that there are standards which men and women should try to live up to, then ruthless dealing with our fellows is no more to be condemned than kindliness and generosity is to be applauded.

It is a fact of the human situation as such, that if a male does cut a sorry figure as a man he will cut an even sorrier figure in the feminine role; likewise the female. Such persons cut themselves off from the understanding and help they need from the rest of us when they employ the false and desperate argument that no one can say what is normal. The argument will eventually backfire in the form of hostility and intolerance on the part of those who have been informed that this reaction is just as normal as the opposite attitude, and twice as much fun.

The Realm of Necessity

I have talked at length about stubborn facts, unchanging regularities, rules, order – and the necessity thereby imposed upon us to conform our conduct to the way things are. I have emphasized the domain of necessity only because its imperatives are widely ignored or denied today. But if this were the whole story, or even the most important part of it, we'd come away with the notion of a mechanically arranged universe in which man cheerlessly and robot-like serves out his sentence under a rigid prison routine of eat, sleep, and work. This is not at all what I have in mind, for such a grim caricature of life would be an affront to our Creator and omit the most important fact of our inner nature, its radical freedom! There *is* a realm of necessity, but there is also a realm of freedom; successful living demands that we give each its due.

Imagine yourself at the poker table. You are dealt a particular hand. The cards you hold may give you an edge or they may impose a handicap; in either case it is the way you exercise your freedom to play your hand that really counts; it's a combination of luck and skill, with skill being the critical factor.

Now take a look at baseball. I have stressed the importance of the rule book in baseball; but men sitting down to chew over the rules is not baseball. We couldn't play baseball without the rule book, but the game itself is something else again. It is the incredible batting, pitching, fielding, and strategic skills of the players and coach; it is the excitement of Yankee Stadium, the constant murmur of the crowd, the tension that mounts in tight situations; it is winning, and the horseplay in the locker room. This is the game of baseball, and

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the only function of the rule book is to make all this possible.

If Nature Were Unpredictable, We Could Not Survive

It is much the same in life; it is only from the neutral base of order and dependability in nature and society that we can exercise our freedom creatively. If nature were completely unpredictable we could not survive, and if we could not count on our fellow men in a variety of situations society would collapse. There are stubborn facts we cannot change, which we must simply accept, to which we must adjust ourselves; but there is also the infinitely expansible domain of our freedom where our capacity to create tips the balance in the direction we will it to go. The things at stake here have been well put in the old prayer: "God grant me the serenity to accept the things I cannot change, courage to change the things I can, and the wisdom to know the difference."

When we do understand the difference, our freedom begets a new awareness of the majesty of the order where necessity prevails; we are awed by its mysteries and charmed by its beauties. Beyond mere survival we get a bonus every time we interact with our world. Reflect for a moment on our five senses; sight, taste, hearing, smell, and touch.

The animal uses his eyes to survive, to spot his prey and to see his foes before they see him. Our eyes also serve a utilitarian purpose, but in addition we can look with them, and when we look we find sheer delight in the colors, the patterns, and the visible arrangements of our planetary home. Beyond this, there is reading, there are the pleasures of art and architecture.

We get a second bonus with the sense of taste. It is conceivable that we might be fed intravenously with all the food elements we need for survival but with no accompanying gustatory pleasure; I don't suppose an earthworm has a palate and the same is true of most other forms of life. How come we human beings are so lucky?

Then there is the gift of hearing There is survival value in being able to pick up sound waves and be thus warned of danger, but that's only a minor part of the auditory world. There's the murmur of the wind in the pines, the song of a bird, the babble of a brook, the roar of the surf, the sizzle of a steak, the sound of music. Music is a realm unto itself, and without it, the philosopher said with pardonable exaggeration, life would be a mistake.

Nor should we overlook the sense of smell which takes us into the subtle world of fragrances. In-

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cense has performed its humble service for the sacred since the dawn of time, and the art of the perfumer antedates history. The blossom and the fruit strike the olfactory sense and an ancient racial memory stirs.

And it is not only for the blind that the world of touch – the feel of textures, contours, warmth, resilience – exists.

Life pours out its richness in a veritable torrent, but we stand alongside this flood trying to scoop up the precious stuff with a thimble! Our container is too small; that's why we take in only a fraction of what's available to us. The bottleneck is within us, in our own thick heads! We've got to enlarge our capacity; exchange the thimble for a tea cup; the tea cup for a bucket; the bucket for a barrel. We've got to work on ourselves, for there's little any person can do for another until he has done his utmost with his own being. As Gerald Heard put it, we've got to grow as big inside as the whale has grown outside. Some few have made it, and what they have done we can emulate.

Harry Emerson Fosdick tells about baby sitting his five-year-old niece. The child got restless so Fosdick went to an old copy of *Life* magazine and tore out a page on which was a map of the world. He cut this into a number of little pieces and then told his niece, "Now put this map together." He set the child at a table and went back to work in his study.

In ten minutes the child popped into his study and announced that she had finished. This seemed incredible so Fosdick asked her how she had done it. "There was a man's picture on the other side of the map," said the child, "and when I put the man together the world came out right."

IDEAS ON LIBERTY

Communication

How do you persuade a man to change his mind? You don't threaten him, you don't lecture him, you don't accuse him of evil crimes. You show your own security in other ideas and you keep on exhibiting evidence of the validity of those ideas. You don't especially try to *prove* anything; that only makes people suspicious; you get busy creating the good society filled with good men of the sort you say flourish naturally under the rules of your society.... You concentrate on production of the persuasive facts.

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The Passing Parade

R. W. DEMERS

TOO FREQUENTLY too many of us ignore the clear, concise lesson to be learned by incidents and situations which we view only as passing commonplace, and principally a source of boredom or delay, or both.

Consider the situation which has surely confronted us all on frequent occasions – a long, rumbling freight train has crossed our path, and what is our usual reaction? We wait, of necessity, but we are impatient, irritable, and aggravated at the inconvenience this rolling behemoth has imposed upon us.

What might have been, or could still be, a much more fruitful reaction? Could we not find a wealth of concrete, specific examples of the amazing success formula which has blessed us as the most free and independent of all people? As the cars roll by, starting with the chugging diesels to the rickety caboose, we have a graphic, demonstrative testimony to the genius and industry of free enterprise, acting in concert across a vast span of miles.

Long refrigerated cars bearing

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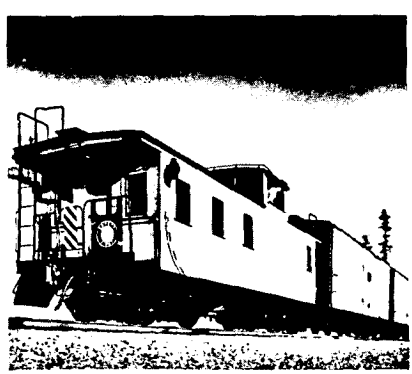
perishable citrus fruits from the sub-tropical climes of Florida, Arizona and Southern California to tiered flat cars loaded with the gleaming, shining bodies of new cars and trucks from Detroit and the various assembly plants across the land. Huge earth-moving rolling stock lashed to swaying flat beds in their multicolored coverings of paint, and defying imagination as to the nature and variety of their uses. Open-top cars, revealing their cargo and destination by the streamers of sawdust and wood chips as they bump and clatter across the rails. All sorts of cars with letters, titles, codes, and destinations from a host of railways across the length and breadth of the U.S.A., challenging the imagination as to what cargo, if any, fills their interiors. Stacks of plywood, huge timbers, and sheets of gypsum. Sacks of grain, lime, cement. Tanks of milk, oil, gasoline, and acid. Dump cars of sand, stone, scrap iron, and coal. These and many, many more all followed by a swaying, creaking caboose, with wisps of smoke from its peaked smoke stack and a friendly face and a waving hand from one of the trainmen as it terminates our passing parade.

Is all this to you just a noisy interlude of annoyance and inconvenience? Have you joined the ranks of the brainwashed who can no longer feel goose flesh shoot up and down their spines as the whistles blast, and the bells ring, and the thunder of the rolling wheels become a glorious overture to the wonderous symphony of free and competitive production?

The trains will still roll, the machines will still operate, the fields will still grow, under the heel of an omnipotent government; but the days will be dull and grey, the production will be inadequate, weak, in decay; and a cold, chilling shroud will be drawn over the light and spirit of free man.

Unless we awaken and realize that the festive table of plenty at which we feast is the result of hard-working, frugal, honest, trustworthy, God-fearing, free individuals, we may find our table swept clean and the bright lamp of freedom extinguished.



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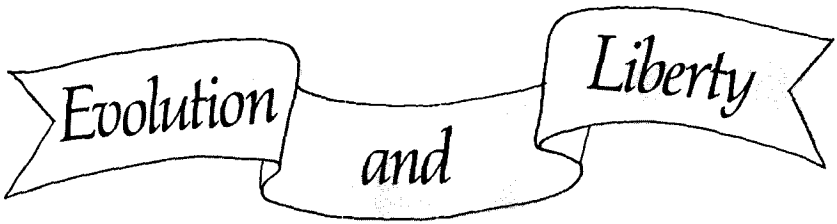

RONALD F. COONEY

WHEN, on July 1, 1858, Charles Darwin and Alfred Russel Wallace presented their paper on the origin of species before London's Linnean Society, they could have had but little inkling of the revolution in thought they were fomenting. Of course, a theory of the origin of man outside the accepted religious belief of man as a divine creation was sure to provoke a new clash, in a war centuries old, between science and religion. Then too, the assumptions of science up to that time would have to be modified—or abandoned—to fit the new knowledge. This much Darwin could have divined. But could he have known the effect his theories were to have on fields as distant from biologic science as political philosophy and economics? Could he have known the uses—or misuses—to which his theories would be put in those fields?

In truth, Darwin's discoveries were very influential in both of these areas. For proof of that, one need look no further than the school of social and political thinkers known to us as the Social Darwinists. To these men, the Darwinian hypothesis was a galvanizing axiom. Darwin had found in the struggle for existence a biological foundation for competition among and between men, and in the survival of the fittest a justification for laissez-faire. Here, felt the libertarian spirits of the Social Darwinists, was the definitive answer to all socialistic and reformist agitators. Lockean liberalism was thereby wedded—as we shall see, not entirely compatibly—to the findings of modern science.

Nowhere were the peculiar

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strengths and weaknesses of this union more apparent than in the writings of the chief American Social Darwinist, in many ways *the* Social Darwinist, William Graham Sumner. So thoroughly did Sumner dominate Social Darwinist thinking from the middle 1880's to 1900, so completely did he represent the movement as theoretician, expositor, and publicist, that his work, a few books and numberless essays and newspaper articles, offers a kind of proving ground for the truth or falsity of Social Darwinist doctrine.

Sociology and the Scientific Study of Society

Sumner began his adult life as an ordained minister. He had, however, a great interest in sociology, then a fledgling science. After reading Herbert Spencer's *Study of Sociology* and *Principles of Sociology*, he became convinced of the need for studying society as the biologist studied plants, animals, or any other organisms, within the framework of fixed and immutable laws.

The first of these is evolution. The slow and steady process which brings a new species of animal into being is at work all the time in society, working toward a new social organization. Man has no control over the designs of Nature, nor should he. "Reforms" aimed at "improving" the plan of Nature are doomed to well-deserved failure.

Then comes competition. Animals compete for food or territory, and man competes with man for the necessities of life.

Next comes the survival of the fittest. Certain animals survive because of their superior strength, cunning, or adaptability. They are Nature's favored. So it is too in human society. The fittest are those best qualified by natural aptitude, intelligence, or economic strength to survive the struggle for existence with Nature and with other men. Liberty and laissez-faire are demanded, not because of natural rights, which Sumner scorns as specious, but because they alone allow the free play of evolution and competition, and insure the survival of the fittest.

At times it is difficult to disentangle one thread of Sumner's argument from the other, so interwoven are the two, evolutionary and libertarian. Here he is, for instance, in his book *What Social Classes Owe To Each Other*, speaking on the reasons why state-charity, that popular socialist nostrum, should be disallowed:

> Certain ills belong to the hardships of human life. They are natural. They are part of the struggle with

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Nature for existence. We cannot blame our fellow-men for our share of these.

As we can see, the evolutionary-naturalistic argument is the dominant one in this passage. Elsewhere though, the libertarian holds sway, as in this excerpt from the same book:

> . . . if his fellow-men, either individually . . . or in a mass, impinge upon him otherwise than to surround him with neutral conditions of security, they must do so under the strictest responsibility to justify themselves. Jealousy and prejudice against all such interferences are high political virtues in a free man. It is not at all the function of the State to make man happy.

Taking these two passages together they seem to say this: Each man must wring from Nature what his capacities and his liberty will permit. To interfere with this struggle and with the dictates of Nature is anti-Nature, anti-liberty, and finally, anti-civilization.

For Sumner sees the end-product of such meddling as nothing less than the destruction of society. The following extract from his essay, "The Challenge of Facts," draws freely on the vocabulary of the evolutionist:

> Nature is entirely neutral; she submits to him who most energetically and resolutely assails her. She grants her rewards to the fittest, therefore, without any regard to other considerations of any kind. If then, there be liberty, men get from her just in proportion to their works . . . If we do not like it, and if we try to amend it, there is only one way in which we can do it. We can take from the better and give to the worse. We can deflect the penalties of those who have done ill and throw them on those who have done better . . . We shall favor the survival of the unfittest, and we shall accomplish this by destroying liberty . . . we cannot go outside of this alternative: liberty, inequality, survival of the fittest; not-liberty, equality, survival of the unfittest.

Few passages in the whole Social Darwinist canon show the unique junction of evolutionary and libertarian concepts as sharply as this one does.

If the struggle for existence proceeds without interference from the State or any other agency, then men will receive from Nature what is their due. Private property, therefore, is simply the reward of the struggle. No impediments may be placed in the way of getting and keeping property. Liberty and property are complimentary. Sumner says:

> The condition for the complete and regular action of the force of competition is liberty. Liberty means the security given to each man that,

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if he employs his energies to sustain the struggle on behalf of himself and those he cares for, he shall dispose of the product exclusively as he chooses . . . it is the definition of justice that each shall enjoy the fruit of his own labor and self-denial, and of injustice that the idle and industrious, the self-indulgent and the self-denying, shall share equally in the product.

To sum up the main points of Sumnerian Social Darwinism: Evolution determines the social structure. Interference with evolution is presumptuous folly, especially inimical if it includes interference with the law of competition and the struggle for existence. Such interference will favor the worst members of the community at the expense of the better. Eventually, private property will be destroyed, and with it justice, liberty, and civilization.

The Laws of Nature

Sumner obviously believed that liberty and evolution are synonymous. But are they? Sumner perceived society as being ruled by the laws of Nature. Man remains an animal, subject to the whims of Nature. He may try to avoid his fate, to postpone or deflect it, but in the end he must accept it. Nature is the master, man the servant. No conceivable amount of man-made laws can alter the fact. No amount of interference will stay the great tide of evolution from rolling on to the goal it has set for itself.

Certainly such a deterministic view comprises a forceful case against hasty legislative meddling, but it also has serious implications for human liberty. If we agree on the inevitability of evolution, we must further agree that all human effort – which is man using his liberty – is useless, unless it is in accord with Nature's plan. But being mere men, we cannot know what that plan is. Nature conceals her intentions.

Suppose, as Marx believed, the arrival-point of history is the socialized state, the so-called "inevitability" of communism. Does this mean we should bow our heads for the yoke of statism because evolution has ordered us to do it? Is it not futile to oppose socialism if evolution wills socialism? Conversely, is it not superfluous to oppose socialistic laws if evolution will destroy them anyway? More, what assurances have we that evolution *will not* bring socialism in spite of our labors? Truthfully, we have none. Yet we can still oppose socialism as destructive of freedom without resorting to the position that it is counter-evolutionary. We can hope evolution moves toward freedom, and we can work to the attainment of that end

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through the medium of our free will — something such evolutionary predestination refuses to recognize.

A thoroughgoing determinism has the secondary consequence of rendering moral judgments practically meaningless. Men who are the victims of blind natural forces beyond their control cannot be held answerable for their actions, either good or bad. In fact, words like "good," "bad," "guilty," and "innocent" are drained of all significance. No system of justice or morality is possible unless one supposes a man is accountable for what he may do. The assumption of this is the essence of libertarianism, just as absolving a man of responsibility is the essence of statism.

Determinism makes for inconsistency in one who sees life in the stark moral terms Sumner did. The theological training he received earlier in life colored his thinking long after he had abandoned preaching and taken up the gospel of evolution. He divided society into two halves, each illustrating a moral absolute, both mutually exclusive. The virtuous he identified with the qualities of thrift, honesty, industry, and economic success. The virtueless he identified with the qualities of profligacy, dishonesty, sloth, and economic failure. The virtuous were the "fittest," the "better" in the struggle for existence. The virtueless were the "unfittest," the "worse" in the struggle for existence. Socialism would interfere with the natural law of competition and maintain the unfit at the expense of the fit. Often, when discussing this question, Sumner would cite the intrusion on individual liberty almost as an afterthought.

An Oversimplification

One can understand and sympathize with Sumner's strict dichotomy of society while admitting it is rather too simple. Comparisons between the human and animal world can go so far and no farther. By equating "fitness" and virtue with economic success, Sumner has surely gone too far. There is no evidence that the economically successful are the "fittest," and the poor the "unfittest," or that evolution recognizes either as such. We may believe that thrift, industry, and honesty are virtues worthy of praise, but we can never be sure evolution will not favor profligacy, sloth, and dishonesty.

Sumner was curiously pessimistic about man's ability to influence evolution, and curiously optimistic about the result evolution would produce. And optimistic too that the fittest are *necessarily* the sentinels of liberty. One can only

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guess at the number of people who wore with ease the mantle of the "fittest" while simultaneously supporting – against Sumner – high tariffs and protectionism.

With competition, Sumner is on firmer ground, although here once again he falls into traps of his own making. Men *do* compete, and so do animals. Except as a metaphor, however, the analogy is of little worth. It ignores the vital part contract plays in the relations between men, the combining of interests for common benefit which is a distinctly human invention and which exists nowhere else in Nature. Sumner is doubtless correct that competition permits a full realization of man's potentialities. Contract, however, keeps competition from being the brutal process, "red in tooth and claw," that it is in Nature.

Socialist attacks on Social Darwinism were common throughout the 1890's and early 1900's. Some of these attacks, it must be admitted, were convincing insofar as they refuted – or tried to refute – the applicability of evolutionary theories to society. Admitting this by no means confirms the validity of socialism, however. Indeed, the refutation of glaring evolutionary presumptions disposes not at all, as some commentators sympathetic to socialism have suggested, of the core of libertarian truth in Social Darwinism. One need not believe, for example, that competition is "natural" to believe that it provides an essential impetus for the improvement of man and society. One need not defend an arbitrary "fittest" to oppose State interferences with the rights of the individual. One need not think it is wrong to meddle with the forces of Nature to support laissez-faire on the conviction that it maximizes freedom.

The mistake the Social Darwinists made was thinking liberty required an external justification, a scientific *apologia*. In this, they conceded the libertarian defense of capitalism, individual rights, and laissez-faire no longer held currency. They built a new foundation upon the irrelevant and highly dubious base of natural science. By so doing, they weakened the very thing they sought to sustain. They ceased being libertarians and began being evolutionists. If we can successfully distinguish evolution from liberty, we can save the Social Darwinists from themselves. Then, perhaps, they will cease being evolutionists and begin again to be libertarians. Liberty will emerge the stronger for it.

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PAUL STEVENS

IN 1944, as the world was recovering from the effects of World War II, the heads of state from over 100 countries met in Bretton Woods to create an international monetary system that would unite the western world, insure monetary stability, and facilitate international trade. Over the years since then the system has been plagued by dollar shortages and dollar "gluts"; chronic deficits and chronic surpluses; perpetual parity disequilibria, "hot money" capital flows, and currency depreciation. By 1968, a "two-tier" gold market was established in the midst of a gold crisis which, by 1971, culminated in the suspension of dollar convertibility together with a dollar devaluation against multilateral revaluations of most other major foreign currencies.

Bretton Woods is dead and an autopsy is called for to determine the cause of death. If meaningful international monetary reform is to follow, it is necessary to know what went wrong.

Fixed exchange rates, flexible rules. . . . Under the rules established by the Bretton Woods agreement, the gold values of a member nation's currency could be altered *"as con-*

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ditions warranted." This distinguishing feature of the Bretton Woods system exposed a drastic ideological departure from the gold standard.

Under the gold standard, no *natural* conditions would ever warrant a change in the gold value of a nation's currency. Under a pure gold standard, all the money in circulation would be either gold or claims to gold. Any paper money would be fully convertible into gold. There would be no difference between claims to gold and gold itself, since, if claims to gold circulated as money, the gold could not.

However, there are *government-made conditions* that could warrant a reduction in the gold value of a nation's currency. If governments have the power to artificially increase the claims to gold (e.g., dollars), they have the power to depreciate the value of the national monetary unit.

Bretton Woods was established with the intention of aiding governments in exercising their powers of inflationary finance. Government leaders knew that the gold standard prevented them from fully pursuing domestic goals that depended on deficit spending and prolonged, artificially induced "booms." They detested the gold standard for its *fixed rules* which brought adverse economic repercussions whenever they refused to adhere to them, and they detested *flexible exchange rates* that exposed the government's policy of currency depreciation.

The political temptations of artificially increasing the money supply in order to "stimulate the economy" prevailed against the gold standard and brought the beginning of a "new era": *fixed exchange rates* with *flexible rules*, the exact opposite of the gold standard.

No longer would politicians adhere to the discipline of the gold standard. No longer would they have to restrict their deficits or domestic money supplies. Government leaders would make their own rules and fix the nominal value of money by decree. And if "conditions warranted" a reduction in the nominal value of a nation's money, it was agreed that a nation could devalue up to 10 per cent after the formality of obtaining other nations' permission. This was called the "adjustable peg" system.

The great ideological distinction between the gold standard and the Bretton Woods system, then, is that the Bretton Woods system was ostensibly intended to stabilize exchange rates, but at the same time it *anticipated* that governments would *not* defend the value of their currencies. Worse, Bretton

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Woods *institutionalized* a method which allowed and condoned future currency depreciation.

Export or devalue: institutionalizing the devaluation bias.... Historically (and the Bretton Woods era was no exception) nations have seen fit to pursue a basically mercantilistic trade policy, i.e., a policy which maintains various regulations intended to produce more exports than imports.

The mercantilistic case is not a realistic one. For example, it would be impossible to develop a logical case advocating that all individuals should sell products and services at the same time. Obviously, some individuals must be consumers if there is to be a market for sellers.

There is no difference when it comes to nations trading in a world market. This is simply to say that not all nations can run trade surpluses at the same time.

An equally difficult case would be to try to convince some individuals that most of the money they receive from the sale of goods and services should be saved rather than spent on the consumption of goods. Yet this is the intent underlying all government policies that aim at increasing exports (sales) and restricting imports (consumption).

There is no logical reason why individuals should not be allowed to reduce their cash balances by buying goods from other nations if they believe it is to their benefit; that is what their cash balances are for. To penalize men or discourage them from importing by imposing licensing restrictions, capital controls, tariffs, or "import surcharges," only serves to limit the variety of their economic choices. This in turn only serves to reduce their standard of living.

A nation's drive for export surpluses, together with its "protectionist" policies of restricting imports, leads to an increase in the domestic money supply. This influx of money, together with the money that governments feel they must artificially create in order to "stimulate the economy," leads to higher domestic wages and prices as more money chases fewer goods. These higher wages and prices create an *illusion* of prosperity, which explains the popularity of mercantilist-inflationist policies.

But higher domestic wages and prices lead to a *dwindling* trade surplus as a nation's goods become less competitive in world markets, and a dwindling trade surplus, unless corrected, eventually deteriorates into a trade deficit. This is the dilemma facing all governments that pursue the contradictory and self-defeating policies of mercantilism and inflationary finance.

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Under a gold standard there is only one way to resolve this dilemma: stop artificially creating money, stop preventing money from leaving the country. The result would be a normal, self-correcting deflation – i.e., a contraction of the domestic money supply – which would lead to a *fall* in domestic prices and to equilibrium in that nation's balance of trade position.

But because governments hold an unwarranted fear of lower prices and favor higher prices that give the illusion of prosperity, the framers of Bretton Woods adopted a mechanism that would allow governments to inflate their currencies yet escape the process of a normal self-correcting deflation. By *devaluing* their currencies, governments could continue to inflate their domestic wages and prices while making their exports less expensive to the world.

The device of devaluation was established to allow nations to regain their competitive edge once their surplus deteriorated into deficit. Devaluation *immediately* lowers the price of a nation's exports, and in this way nations can more actively strive for export surpluses. Thus the framers of Bretton Woods found a way in which nations could continue both their drive for export surpluses and their domestic policies of inflation. A nation would simply export its goods until its domestic inflation reduced or eliminated its trade surplus, then devalue. In this way the Bretton Woods system established an implicit code of conduct: export or devalue. It *institutionalized a devaluation bias* within the new international monetary system, which led to serious imbalances, ultimately resulting in hundreds of devaluations during the Bretton Woods era.

"Hot Money Blues." . . . Because devaluations are completely arbitrary (at best mere guesswork), new problems arose in place of old ones. The problems centered around the pre-devaluation exchange rate: nations were committed to supporting the rate even when it was unrealistic.

Bright investors soon began to realize when a particular currency was overvalued and to shift their money from the weak currency to stronger ones. This caused further pressure on exchange rates and resulted in speculation – i.e., selling short on X currency, buying gold, or buying long on Y currency. Governments intervened in foreign exchange markets in order to preserve their unrealistic exchange rates, by accumulating massive amounts of unwanted weak currencies. But this could not continue for long.

Finally, when a government was

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forced to devalue, the action had repercussions on other currencies (particularly if a major currency were involved): it brought all other weak currencies under suspicion. This resulted in further devaluations as investors transferred their money into only the strongest currencies in anticipation of competitive devaluations and major currency realignments. This was called "hot money" and was attributed to speculators – not to currency-depreciating policies of governments.

Finally, under the Bretton Woods agreement, national currencies were not allowed to "float" and seek their own levels. The new "par value" of a currency was arbitrarily set by the IMF – and these were consistently either too high or too low. Like all forms of government price-fixing, the fixed exchange rate system was in perpetual disintegration. This resulted in further "hot money" flurries, further realignments of currencies, and an inherently unstable exchange rate system – the *exact opposite* of the goal intended by the framers of monetary reform at Bretton Woods.

The role of the dollar under Bretton Woods. . . . The role of the dollar under the Bretton Woods system was vastly different from that of other currencies. Because of the United States' economic strength and Europe's economic weakness after World War II, the dollar was used by other governments as a reserve for their currencies. This meant the dollar was pegged to gold and supposedly committed to stability and convertibility. Thus the dollar was supposed to be "as good as gold," and therefore to be treated as a reserve asset *just like gold.*

There are several implications tied to the concept of a paper reserve currency. (1) Gold, the main reserve asset, was considered too limited in quantity to restore world liquidity or to provide sufficient wealth for rebuilding war-torn nations. (2) While gold could not be increased, a paper asset (U.S. dollars) could – consequently the reserves of the western world could be expanded. (3) Inflation could be implemented in a "more equitable" manner by an ever-increasing paper reserve. (4) A paper reserve currency "should not be devalued" yet it should be increased *"as needed"* to meet demand. This last blatant contradiction was the major factor in the disintegration of the IMF in later years.

Limited gold – unlimited dollars: a formula for disaster. . . . Since gold was limited, the vast majority of the assets on which foreign currencies were based to finance Europe's

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recovery was not gold but U.S. dollars – the second primary reserve asset. The demand for dollars came in two forms: (1) demand for foreign exchange to be used for importing goods, and (2) demand for reserve liquidity and replenishment.

The U.S. satisfied the demand for foreign exchange by inflating its currency and extending loans and gifts to Europe. These gifts and loans were used almost entirely to import goods from the U.S. Therefore, many of these dollars returned to the U.S. However, the demand for reserve liquidity and replenishment was met by continuing U.S. deficits that led to European "stockpiling" of dollars in the form of interest-bearing notes and demand deposit accounts. Demand for dollars between 1950 and 1957 continued and an excess of dollars began to build up in foreign central banks.

After 1957, and to this day, the foreign banks have been obliged to continue to take in dollars that were neither intended for imports nor needed for liquidity. This era has become known as the era of the dollar "glut."

Confidence versus liquidity – a two-tier tale. . . . During the 1960's the progressive supply and accumulation of dollars mounted and world central bankers found themselves confronted with a government-made monetary dilemma: the more dollar reserves they acquired, the more likely was the chance that their dollar surplus would depreciate in value. To state the problem another way, the more *liquidity* central bankers enjoyed, the less *confidence* they had in their most liquid asset – the dollar.

Gresham's Law prevailed and in 1968 central bankers and private speculators began to convert their dollars into gold. A gold crisis developed: the U.S. could not hope to convert the amount of dollars outstanding against its gold stock. A "two tier" gold market was set up to avert a dollar devaluation and the break-up of the International Monetary Fund (IMF), i.e., one free market for speculators and industrial users who would buy gold at the free market price, and an official market where governments would transact dealings at the pegged price of $35 per ounce. Finally in 1971, in a wave of "hot money" speculation, the U.S. was forced to devalue the dollar against gold and to suspend its convertibility.

Gold's limitations: a blessing in disguise. . . . The demise of Bretton Woods can be traced directly to an excessive supply of dollars. The anti-gold principles of inflationary finance practiced diligently under

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the Bretton Woods era, turned into a give-and-take fiasco: the U.S. became a faucet of wealth, supplying dollars on request to every corner of the world, while over a hundred countries drained the U.S. in the name of world liquidity and "reparations."

The result was a flood of dollars that swept over the world producing world inflation, numerous recessions, hundreds of currency realignments, disruptive trade, a gold crisis, and the final international monetary crisis that has left the world precariously groping for stop-gap measures to resume monetary and trade transactions.

Clearly the Bretton Woods vision of a stable and ever-expanding reserve currency was doomed from the onset. Had the governments limited their reserves to gold, the kind of monetary and credit expansion under Bretton Woods – and all of its disastrous consequences – could never have occurred. Gold places objective limits on monetary and credit expansion, and this in itself was enough for the framers of Bretton Woods to condemn it.

It is no accident that the kinds of limitations gold imposes on the extension of money, credit, and reserves is just what the world is crying for today in light of the "dollar glut." As a reserve currency, the dollar was supposed to be as good as gold. But monetary authorities never stopped to ask "what makes gold so good?" The answer is that gold is limited – the very point for which it was condemned.

The refusal of government leaders to adhere to the rules of the gold standard and their desire to create a monetary system based on their own arbitrary rules of whim and decree, failed as it has always failed. Once again, history has proved that a mixture of government whim with the laws of economics is not a prescription to cure world problems: it has always been and will always be a formula for world chaos.

U.S. balance of payments problems.... U.S. balance of payments deficits began in the early 1950's and have not ceased to this day. The cause of these incessant deficits can be traced to monetary and trade decisions made at the inception of Bretton Woods and reinforced throughout its existence.

The first straw.... When it was decided that the U.S. was to act as world banker and benefactor to those countries in need of help after World War II, it is doubtful that anyone really believed the U.S. would profit as world banker. On the contrary, the consensus was that war-torn nations needed more money than they could afford to pay back. It was argued that the

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U.S. could afford to (and therefore *should*) extend foreign aid (gifts), loans at below market rates of interest (gifts), and military protection (gifts), to those countries in need.

What must be remembered is the precedent for this decision: the U.S. was committed to protect and finance the western world by virtue of its great strength and an ever-expanding stream of dollars.

It was assumed that this money would return to the U.S. via import demand, and in fact, during the years 1946 to 1949 most of it did, resulting in fantastic U.S. surpluses.

On selling one's cake and wanting it too. . . . But during the years 1950 to 1957, a turn of events took place. Europe by design curtailed its already abundant imports and concentrated on replenishing its national reserves. With conscious intent, the U.S. continued to supply the world with dollars through deliberate balance of payments deficits to accommodate Europe's demand for reserve replenishment. The refusal of the foreign governments to allow their citizens to use their constantly rising dollar surpluses for U.S. goods (by imposing trade restrictions) led to the dollar glut of the 1960's.

The blame for the chronic surpluses of foreign governments and chronic deficits of the U.S. must be shared. While the U.S. can be blamed for financial irresponsibility, the surplus countries must be blamed for economic irresponsibility. The U.S. could have stopped its deficits, but surplus-ridden countries could have stopped penalizing their citizens and discouraging them from importing. Instead, they decided to increase dollar reserves (dollars that for the most part were given or loaned to them) and to either exchange them for gold or hold them in the form of interest-bearing notes and accounts.

By accumulating excessive amounts of dollars that they refused to use, surplus countries helped foster U.S. deficits: some nations' chronic surpluses must mean that other nations are running deficits. The irony of the decision to run an intentional chronic surplus is that the purpose of selling goods is to gain satisfaction as an eventual consumer. The drive for both surplus reserves and surplus exports, and the refusal to consume goods with the money received, implies that a nation expects to sell a good and somehow derive satisfaction from it after it's gone.

The illusion of the last straw. . . . The increasing demand for dollars led the U.S. government and the Fed-

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eral Reserve System to increase the amount of dollars and thus to depreciate the purchasing power of the dollar. As confidence disappeared in the dollar's ability to continue its role as a reserve currency, "hot money" flurries soon appeared. Thus, by the late 60's and early 70's, an enormous amount of dollars accumulated against a dwindling supply of U.S. gold. This caused both "runs" on the U.S. gold stock and "flights" from the dollar into stronger or undervalued currencies.

This speculative capital outflow caused the U.S. balance of payments deficit to increase in a pyramiding fashion. Finally, the conspicuously low amount of U.S. gold reserves, the disparity between currencies and interest rates, and a dwindling U.S. trade surplus, aroused a well-founded suspicion that the dollar might be devalued – and that other, stronger currencies might appreciate in value.

This justifiable suspicion then caused even greater U.S. capital outflows which led to even greater U.S. deficits. This was the "straw that broke the camel's back." But it was the haystack of straws before it, beginning with the first straw – i.e., the first U.S. inflation-financed gift abroad – that inexorably led to the progression of U.S. balance of payments deficits, international monetary chaos, and the disintegration of the Bretton Woods system.

The high price of gifts. . . . When the U.S. embarked on a policy of inflation-financed world loans and gifts, it surrendered all hopes of attaining a balance of payments equilibrium for itself or for the world. Between the years 1946 and 1969, the U.S. as world banker extended some $83 billion in grants and loans. Since 1958 some $95 billion has left the country. Most of these dollars were non-market transactions motivated by political and military considerations.

While many economists believe it is necessary for the U.S. to run trade surpluses to correct its balance of payments deficits, to expect normal exports to rise to the level of these abnormal capital outflows only makes sense if one stands on one's head – it is not a logical position to take.

These grants should never have been given to foreign nations. It was an economically unsound move and the grants were extended at the expense of the American taxpayers. Further, any *additional* loans and gifts made by the U.S. to satisfy nations who demand "free" military protection, such as Europe and Japan have been demanding for years, or "reparations" such as those now being demanded by North and South Vietnam, will

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only lead to further capital outflows . . . and this at a time when the world is plagued by depreciating dollar reserves and continuing U.S. deficits – the very cause of the international monetary crises which led to the demise of Bretton Woods.

Those who argue that the U.S. balance of payments deficits were caused by insufficient trade surpluses blind themselves to the fact that the U.S. has been running continuous trade surpluses for almost a century. They refuse to place the blame for U.S. balance of payments deficits where it belongs: on the U.S. government's inflationary policies of give-away finance.

On domestic dreams and international nightmares. . . .The notion that governments can divorce domestic inflation from international economics is fallacious. There is no domestic-international dichotomy in economic theory. There is a causal relationship between all economic activity, thus there can be no international immunity from unsound domestic policies and no domestic immunity from unsound international policies.

To the degree that nations practice sound domestic economic and monetary policies, the result will be stable economic progress in both the domestic and international economies. To the degree that domestic policies are unsound, distortions will occur that will be destabilizing and inhibit economic progress both domestically and internationally – the results being counter-productive in both areas.

Bretton Woods was set up to accommodate various nations' domestic dreams. The dreams of post-war prosperity were financed by inflationary schemes that were incompatible with any sound international monetary standard. The Bretton Woods agreement established the contradictory system of fixed exchange rates with a built-in devaluation mechanism, in order to avert the monetary repercussions of not adhering to the exchange rates they fixed. The framers of Bretton Woods knew that governments had no intention of preserving the value of their currencies, that, in fact, they planned to deficit spend and inflate in order to pay for their domestic economic programs.

No international monetary system – not the gold standard nor any form of standardless fiat system, nor any combination thereof – can insure stability given unsound domestic policies. The fundamental economic issue today is not the kind of international monetary system that will replace the Bretton Woods system, but whether the domestic policies of the nations in-

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volved will permit any international monetary system to last. The pre-condition of any lasting monetary system is that it has integrity.

A monetary system that has integrity means a monetary system that is protected from government-created inflation, i.e., arbitrary and artificial increases in the supply of money and credit.

It is a moral indictment against today's political leaders and the public at large that the chances for a monetary system that has integrity are almost non-existent. For before a nation can have a monetary system of integrity, it must end all policies of inflationary finance. And this means that all those dreams a nation cannot afford must end.

The public has bought the politician's claim that they can get something for nothing; that all a government need do is print up money to pay for programs that satisfy national dreams. But there is no such thing as a free lunch – someone must inevitably pay the price of that lunch.

And so it is with domestic dreams.

The price for indulging in domestic dreams through government "something for nothing" programs is domestic inflation and international monetary crises with all their tragic and disruptive consequences.

If domestic dreams of nations today are pursued by resorting to the insidious schemes of inflationary finance, they will inevitably become the international nightmares of tomorrow.

This was the lesson learned from the Bretton Woods system. May it rest in peace!

IDEAS ON LIBERTY

Unstable Currencies

WHEN NATIONS are on a gold standard a fixed rate of exchange is both possible and desirable. When each currency is anchored to gold, all currencies are necessarily anchored to each other. Each currency unit can then be expressed as a precise ratio of another. It can be freely and safely converted into it. But when each country is on its own paper standard its currency can have no fixed value in relation to other currencies. It can be given the appearance of such a fixed value only by making it a crime to buy or sell it at any other rate. But this attempt to maintain by coercion the appearance of stability where no stability exists merely makes the economic consequences incomparably worse.

HENRY HAZLITT, *Will Dollars Save the World?*

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ROBERT E. HOOD

SEEDS OF OPPRESSION

INSTEAD of my reaching directly into your pocket for some worthy cause of my choice, suppose I first muster a majority to gain legal sanction for my ambitions. Thus are clearly criminal acts draped in a mantle of benevolence.

Such is essentially the process involved whenever government is allowed to concern itself with redistribution of wealth programs such as welfare, subsidized housing, job training, ad infinitum. The will of some must be subjugated to the will of the majority and their property expropriated to satisfy the whims of that majority.

This, by some rather irrational semantical juggling, has come to be known as *Progressive* legislation. If our goal is to be a totalitarian socialist state then it is indeed progressive in the literal sense of the word, but to the best of my knowledge we are still at least paying lip service to freedom in this country.

"Well surely," comes the rejoinder, "government has a responsibility to care for those who are truly in need – if only we could stop the abuses." In a free society government does not have that responsibility, and never did; and as long as it involves itself in so-called social legislation there will be abuses and there will be waste and overstaffing. These problems are an inherent and inexorable part of its involvement.

Before you conjure up visions of the sick and elderly dropping in the streets and public works trucks making the rounds each morning to pick up the bodies and deposit them in common paupers' graves, please remind yourself that almost all of this "progressive" legislation has evolved only in very recent years. Prior to our "enlightenment" we depended on private

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charities and on individual responsibility, and we still do in many areas that have not as yet come under the benevolent eye of bureaucrats. How far would I get if I took my tin cup in hand today and went door to door in an attempt to raise money for AFDC mothers? However, if government was not involved in this area, I am certain that no children would starve or want for clothing. Churches and private charities would readily fill the gap and there would be no abuse.

What a terribly malevolent view of mankind one must have to assume that the coercive power of government must be applied in order to alleviate human suffering.

Democratic Illusions

How has this sovereign status of the majority come about? Perhaps the main reason could be that many of us are under the impression that America is a democracy. Had the founding fathers established a pure democracy, the history of this country would have been relegated to a rather tempestuous and brief period at the close of the eighteenth century. Pure democracy — mob rule, in simpler terms — is perhaps the least stable form of government ever devised.

America is a constitutional republic and it is the Constitution which draws the line on democracy. We might be described as a representative democracy but only within the limits provided by our Constitution. Thomas Jefferson is often quoted in defense of a sovereign majority as saying, "The will of the majority is in all cases to prevail." He did indeed say it but the statement is taken out of context. Jefferson immediately added, "— that will, to be rightful, must be reasonable; the minority possess their equal rights, which equal laws must protect, and to violate would be oppression."

So it would seem that the rights of majorities must be severely limited if a free society is to endure; sovereignty lies with each individual rather than in any collective form. It is the sovereign right of each individual to life, liberty, and property that must indeed be inalienable. It necessarily follows then that no individual, no mob, no collective, and no government has a moral claim against the property of anyone, no matter how lofty the intent. The proper function of government in a free society is limited to the defense and protection of the inalienable rights of each citizen; governments may be instituted for no other purpose without inevitably becoming oppressive.

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Editor's Note: Elsewhere in this issue, the Right Honorable J. Enoch Powell, Member of Parliament in Britain, discusses the political implications of "the common market." Not only in Britain and other European countries but in the United States as well, the growth of state welfarism and debt-backed inflation is building into a tidal wave of protectionism.

There have been such waves before, as in the France of 1847 when Frederic Bastiat was doing his best to build the case for free trade. The following explanation, based upon Defoe's story of *Robinson Crusoe,* is excerpted from *Economic Sophisms* by Bastiat. It is well worth reading and pondering in 1973.

SOMETHING ELSE

FREDERIC BASTIAT

"Explain to me the functioning and the effects of protectionism."

"That is not so easy. Before considering the more complicated cases, one should study the simpler ones."

"Take the simplest case you wish."

"You remember how Robinson Crusoe managed to make a board when he had no saw?"

"Yes. He cut down a tree; then, by trimming the trunk, first on one side and then on the other, with his axe, he reduced it to the thickness of a plank."

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"And that cost him a great deal of labor?"

"Two full weeks."

"And what did he live on during that time?"

"On his provisions."

"And what happened to the axe?"

"It became very dull as a result."

"Quite right. But perhaps you do not know this: just as he was about to strike the first blow with his axe, Robinson Crusoe noticed a plank cast up on the beach by the waves."

"Oh, what a lucky accident! He ran to pick it up?"

"That was his first impulse; but then he stopped and reasoned as follows:

" 'If I go to get that plank, it will cost me only the exertion of carrying it, and the time needed to go down to the beach and climb back up the cliff.

" 'But if I make a plank with my axe, first of all, I shall be assuring myself two weeks' labor; then, my axe will become dull, which will provide me with the job of sharpening it; and I shall consume my provisions, making a third source of employment, since I shall have to replace them. Now, *labor is wealth*. It is clear that I shall only be hurting my own interests if I go down to the beach to pick up that piece of driftwood. It is vital for me to protect my *personal labor*, and, now that I think of it, I can even create additional labor for myself by going down and kicking that plank right back into the sea!' "

"What an absurd line of reasoning!"

"That may be. It is nontheless the same line of reasoning that is adopted by every nation that *protects* itself by interdicting the entry of foreign goods. It kicks back the plank that is offered it in exchange for a little labor, in order to give itself more labor. There is no labor, even including that of the customs official, in which it does not see some profit. It is represented by the pains Robinson Crusoe took to return to the sea the present it was offering him. Consider the nation as a collective entity, and you will not find an iota of difference between its line of reasoning and that of Robinson Crusoe."

"Did he not see that he could devote the time he could have saved to making *something else?*

"What *else?*"

"As long as a person has wants to satisfy and time at his

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disposal, he always has *something* to do. I am not obliged to specify the kind of work he could undertake to do."

"I can certainly specify precisely the kind that probably escaped his attention."

"And I maintain, for my part, that, with incredible blindness, he confused labor with its result, the end with the means, and I am going to prove it to you. . . ."

"You do not have to. The fact still remains that this is an illustration of the system of restriction or interdiction in its simplest form. If it seems absurd to you in this form, it is because the two functions of producer and consumer are here combined in the same individual."

"Let us therefore proceed to a more complicated case."

"Gladly. Some time later, after Robinson had met Friday, they pooled their resources and began to co-operate in common enterprises. In the morning, they hunted for six hours and brought back four baskets of game. In the evening, they worked in the garden for six hours and obtained four baskets of vegetables.

"One day a longboat landed on the Isle of Despair. A handsome foreigner disembarked and was admitted to the table of our two recluses. He tasted and highly praised the products of the garden, and, before taking leave of his hosts, he addressed them in these words:

" 'Generous islanders, I dwell in a land where game is much more plentiful than it is here, but where horticulture is unknown. It will be easy for me to bring you four baskets of game every evening if you will give me in exchange only two baskets of vegetables.'

"At these words, Robinson and Friday withdrew to confer, and the debate they had is too interesting for me not to report it here in full.

"Friday: Friend, what do you think of it?

"Robinson: If we accept, we are ruined.

"F.: Are you quite sure of that? Let us reckon up what it comes to.

"R.: It has all been reckoned up, and there can be no doubt about the outcome. This competition will simply mean the end of our hunting industry.

"F.: What difference does that make if we have the game?

"R.: You are just theorizing! It will no longer be the product of our labor.

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"F.: No matter, since in order to get it we shall have to part with some vegetables!

"R.: Then what shall we gain?

"F.: The four baskets of game cost us six hours of labor. The foreigner gives them to us in exchange for two baskets of vegetables, which take us only three hours to produce. Therefore, this puts three hours at our disposal.

"R.: You ought rather to say that they are subtracted from our productive activity. That is the exact amount of our loss. *Labor is wealth,* and if we lose one-fourth of our working time, we shall be one-fourth less wealthy.

"F.: Friend, you are making an enormous mistake. We shall have the same amount of game, the same quantity of vegetables, and – into the bargain – three more hours at our disposal. That is what I call progress, or there is no such thing in this world.

"R.: You are talking in generalities! What shall we do with these three hours?

"F.: We shall do *something else.*

"R.: Ah! I have you there. You are unable to mention anything in particular. *Something else, something else* – that is very easy to say.

"F.: We can fish; we can decorate our cabin; we can read the Bible.

"R.: Utopia! Who knows which of these things we shall do, or whether we shall do any of them?

"F.: Well, if we have no wants to satisfy, we shall take a rest. Is not rest good for something?

"R.: But when people lie around doing nothing, they die of hunger.

"F.: My friend, you are caught in a vicious circle. I am talking about a kind of rest that will subtract nothing from our supply of game and vegetables. You keep forgetting that by means of our foreign trade, nine hours of labor will provide us with as much food as twelve do today.

"R.: It is very clear that you were not brought up in Europe. Had you ever read the *Moniteur industriel,* it would have taught you this: 'All time saved is a dead loss. What counts is not consumption, but production. All that we consume, if it is not the direct product of our labor, counts for nothing. Do you want to know whether you are rich? Do not measure the extent of your satisfactions, but of your exer-

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tion.' This is what the *Moniteur industriel* would have taught you. As for myself, being no theorist, all I see is the loss of our hunting.

"F.: What an extraordinary inversion of ideas! But. . . .

"R.: But me no buts. Moreover, there are political reasons for rejecting the selfish offers of the perfidious foreigner.

"F.: Political reasons!

"R.: Yes. First, he is making us these offers only because they are advantageous to him.

"F.: So much the better, since they are so for us too.

"R.: Then, by this traffic, we shall make ourselves dependent upon him.

"F.: And he will make himself dependent on us. We shall have need of his game; and he, of our vegetables; and we shall all live in great friendship.

"R.: You are just following some abstract system! Do you want me to shut you up for good?

"F.: Go on and try. I am still waiting for a good reason.

"R.: Suppose the foreigner learns to cultivate a garden, and that his island is more fertile than ours. Do you see the consequence?

"F.: Yes. Our relations with the foreigner will be severed. He will no longer take our vegetables, since he will have them at home with less labor. He will no longer bring us game, since we shall have nothing to give him in exchange, and we shall then be in precisely the same situation that you want us to be in today.

"R.: Improvident savage! You do not see that after destroying our hunting industry by flooding us with game, he will destroy our gardening industry by flooding us with vegetables.

"F.: But this will happen only so long as we shall be in a position to give him *something else,* that is to say, so long as we shall be able to find *something else* to produce with a saving in labor for ourselves.

"R.: *Something else, something else!* You always come back to that. You are up in the clouds, my friend; there is nothing practical in your ideas.

"The dispute went on for a long time and left each one, as often happens, unchanged in his convictions. However, since Robinson had great influence over Friday, he made his view prevail; and when the foreigner came to learn how his offer had been received, Robinson said to him:

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" 'Foreigner, in order for us to accept your proposal, we must be very sure about two things:

" 'First, that game is not more plentiful on your island than on ours; for we want to fight only *on equal terms.*

" 'Second, that you will lose by this bargain. For, as in every exchange there is necessarily a gainer and a loser, we should be victimized if you were not the loser. What do you say?'

" 'Nothing,' said the foreigner. And, bursting into laughter, he re-embarked in his longboat."

For further discussion of the Bastiat philosophy of free trade see:

The Tariff Idea
by W. M. Curtiss — 80 pages $1.00

Also, for a better understanding of the close relationship between protectionism and inflation, see:

What You Should Know About Inflation
by Henry Hazlitt — 152 pages $.95

What Has Government Done to Our Money?
by Murray N. Rothbard — 49 pages $1.25

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How to Start Your Own School

Way back at the beginning of the Sixties, before the U.S. started its descent into the maelstrom, I did a series on education for the *Wall Street Journal*. I considered myself a good anti-Statist then, but I made an exception (Leonard Read would call it philosophical "leaking") for the institution of the public school. This country had accepted "free" public education ever since the Eighteen Forties, and the idea seemed inextricably imbedded in our strangely mixed culture. I kept saying to myself that lots of good people had come out of the public high school and that was all right as long as there were a few private schools around to provide competition.

In the course of writing my series I encountered Carl Hansen, head of the Washington, D.C., public school system. He had a grand educational revolution – in reality, a counter-revolution – going. Children in his schools were getting their reading by phonics. Spanish was taught in the third grade. Instructors could come into the Hansen system without taking the full complement of those ridiculous "methodology" courses that the teachers' colleges considered necessary to "progressive" education. Hansen had one school – the Amidon School – that was a jewel. Anyone, whether black or white, could enroll in it if transportation could be worked out and if he or she could keep grades up to snuff. Needless to say, Hansen believed in a "track" system that would permit bright students to go ahead at their own swifter pace.

Hansen convinced me at the time that a good man could do much to purge the public school system of the "progressive" malaise. But Robert Love out in Wichita, Kansas, knew better. At about the time I was seeing a savior in Carl Han-

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sen, Mr. Love was taking his three children, Randy, Robert, and Rebecca, out of the public schools of Wichita. The kids, as he says, weren't learning anything, and Randy, the oldest, had become terribly confused when his fourth grade teacher made an example of him because he chose to exempt himself from a "voluntary" program. Mr. Love and a few other disgusted parents had to pioneer their own private school, which is now known as the Wichita Collegiate School. Between 1967 and 1970 Wichita Collegiate graduated fifty students, forty-eight of whom were in college as of the Spring of 1971. Fifteen of those graduates were semi-finalists in the National Merit Scholarship competition, and three of them were finalists.

Meanwhile, Carl Hansen had long since departed from Washington. The "track" system had been abolished in D.C. schools, and mediocrity had returned. The fault was not Carl Hansen's; he was and is a first-rate educator. The point is that running a counter-revolution in the public school system is bound to come to grief. The bureaucrats don't want it, and they are in control.

The Story of Wichita Collegiate

For the benefit of parents who are fed up with all the things that afflict public education, from busing to the "look-say" method of teaching reading, Mr. Love has put the story of Wichita Collegiate into a fascinating "do it yourself" book called *How To Start Your Own School* (Macmillan, $5.95). Wichita Collegiate has never received a penny of public tax money, and it does not rely on fund-raising campaigns or special donations. Its philosophy is "full cost," meaning that it charges enough in tuition to pay its bills. It doesn't believe in hiring a lot of "coordinators" and trouble shooters; the headmaster is the administration, and if the parents don't like the instruction they complain directly to the teachers. There is no tenure at Wichita Collegiate; if a teacher can't satisfy the students, the parents, and the people who do the grading on the college boards, he either has to improve his record or go. Collegiate's idea is to hire fewer faculty members at higher salaries to do more work, which runs 180 degrees counter to Parkinson's Law. The teachers are not required to have "methodology" certificates from schools of education; as long as they know their own subjects, and have the ability to interest their students, they can command top salaries.

To get the most out of its plant, Collegiate has gone over to the trimester system. Some faculty members work for the school year-round, doing carpentry, painting,

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landscaping and repair work in July and August, in addition to teaching summer school.

Full-Cost Athletics

There is an athletic program at Collegiate, but the parents pay for it. It costs $30 to be on the football squad. The school shares its Olympic swimming pool (it has an inexpensive plastic bubble top) with a local swim club. The father of a boy who scores the winning basket in a close basketball game "has to buy the next set of bleachers." The baseball diamonds are used jointly with the Wichita YMCA. Collegiate has good teams, but, as Mr. Love puts it, "the parents who really want team sports will support the program and let the school get on with education."

In return for scholarship assistance Collegiate expects students – and "in some cases the parents" – to do work around the school. Mothers drive the buses. Collegiate once had a professional librarian, but it discovered that mothers of children on scholarships could do a perfectly competent job of running the library. So the money the school once paid out as a librarian's salary now goes, indirectly, into scholarships.

Mr. Love's book sticks mainly to the Collegiate story, and it is the better for that. But it offers some generalized advice to parents who may be thinking of starting private schools in other towns. Any two teachers, says Mr. Love, can set up a preschool and kindergarten. If the business goes well, and six more willing teachers and a secretary can be found, it is not difficult to expand the school to one carrying on through the sixth grade. The need for a headmaster does not arise until the school adds upper grades. As for finances, the parents will have to cover the costs in tuition fees if they can't find benefactors. One way of raising capital for buildings is to sell shares to the parents, who can resell them after their children have graduated. In any case, the costs do not have to be exorbitant if the Collegiate tight-budget practices are followed.

New Private Schools

Samuel L. Blumenfeld's *How To Start Your Own Private School – And Why You Need One* (Arlington, $9.95) offers a wide-ranging corroboration of everything Mr. Love has to say. Mr. Blumenfeld makes the point that Horace Mann, who saddled the U.S. with "free" compulsory public education, got his idea from the schools of Prussia. Horace Mann considered State-run schools to be "democratic." He also believed in phrenology. He didn't live long enough to see what Prussian "democracy" did to Europe in World War I (the Kaiser's

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war) and World War II (Hitler's holocaust).

Much of Mr. Blumenfeld's book is devoted to a survey of the new private schools that are springing up in the South. Despite the widespread feeling in the North that such schools as Prince Edward Academy in Farmville, Virginia, and Montgomery Academy in Montgomery, Alabama, are "segregation schools," these new private ventures are, in Mr. Blumenfeld's opinion, legitimate efforts on the part of southern parents to save their children from getting inferior educations. Busing, says Mr. Blumenfeld, may turn out to be a great blessing; it has rehabilitated the idea of a free market in education as nothing else could.

WHAT *YOU* CAN DO by Lemuel R. Boulware (San Diego, Calif. 92109, Box 9622: Loeffler & Co., Inc., 1973) 192 pp., single copies $1.35. (Discounts on quantities.)

Reviewed by Henry Hazlitt

THE FULL TITLE of this book is *What You Can Do About Inflation, Unemployment, Productivity, Profit, and Collective Bargaining.*

It lives up to that title. It is a clarion call to action. It reminds the reader that he is not merely someone with a seat in the spectator stands; that what is being done daily by officeholders in Washington and in the labor unions vitally affects his interests; that in some respects economic conditions in this country are getting worse almost daily; that one of the chief reasons for this is that most of us do not realize that it is *our* ox that is being gored; that the majority of business leaders have themselves to blame for either not understanding what is going on, or for lacking the initiative or courage to speak out in their own defense.

Mr. Boulware begins by pointing out that all 200 million of us, whether we realize it or not, have a direct or an indirect stake in the continuous prosperity of American business. First, he estimates, even allowing for duplication there must be at least 50,000,000 of us who are direct or indirect owners of our 1,500,000 businesses. There are 31,000,000 known owners of stock in corporations listed on the exchanges, and obviously more than 10,000,000 owners of our 10,000,000 unincorporated businesses. There are 25,000,000 savings accounts, millions more depositors in checking accounts, 28,000,000 participants in private pension funds, 130,000,000 insurance policy holders, and so on, all

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of which are at least indirect investors in American business.

Finally, of course, there are some 87,000,000 men and women in the civilian labor force, whose pay and continued employment are directly dependent on the continued prosperity and profits of business.

Yet here we come to an incredible paradox. While the whole economy depends on the continuance of profit, while profits are the driving force to production and creation, politically "profit" has become a dirty word.

Sometimes the necessity of profit is reluctantly conceded. But only of an undefined "fair" profit. And from the daily denunciations of politicians and labor leaders we are left to gather that profits are chronically *not* fair but "excessive" and "exorbitant."

The public is appallingly ignorant of the facts. A survey conducted by McGraw-Hill's Opinion Research Corporation found that the median guess of the American people is that even after taxes manufacturing companies make 28 cents on every dollar of sales. This is seven times the actual figure. In 1970, American companies made an average after-tax profit of just 4 cents on every dollar of sales.

The thinness of this margin is illustrated in another way. Of the amount available for distribution as between the employees of the corporations and the owners, the workers, year in and year out, get about seven-eighths and the owners only one-eighth. In 1970, the employees of the corporations got nine-tenths and the owners one-tenth. This is just the opposite of what most Americans believe the average distribution to be. Moreover, about half this profit is not paid out in dividends but is reinvested in the business to increase productivity, employment, and real wage-rates.

The greater part of Mr. Boulware's book is devoted to educating the average citizen in the economic facts of today's world. He points out that our chronic inflation is caused solely by the government's own policy in printing more paper money faster than matching goods and values can be produced. He shows that unemployment is created whenever union-pressure forces wage-rates above what productivity can justify or the market can support. This in turn brings more pressure on the government to print more money to raise prices to make the higher wage-rates payable.

As the former vice-president in charge of labor relations for General Electric, Mr. Boulware writes, of course, with special authority on so-called collective bargaining. This he finds today to have become

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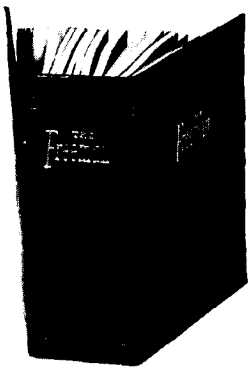
"not free, not collective and, in fact, too one-sided to be any real bargaining at all."

Why do all these destructive practices and policies prevail? Because they are *politically* the most acceptable. Mr. Boulware uses the word "political" throughout his book in the narrow sense of "what is bad for, but will look good to, the constituents involved." Bad policies look good to them because they are ignorant and confused. It is Mr. Boulware's driving passion to remove this ignorance and confusion, and to give those businessmen and economists who do know better the courage to speak out.

This is a what-to and a how-to handbook. I know of no more useful or necessary pamphlet in our present political and economic crisis.



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